

PRUDENTIAL FINANCIAL INC

Form 10-Q

May 04, 2018

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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 March 31, 2018

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, a smaller reporting company, or an emerging growth company. See the 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 April 30, 2018, 420 million shares of the registrant's Common Stock (par value \$0.01) were outstanding.

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Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q 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 such 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) losses on investments or financial contracts due to deterioration in credit quality or value, or counterparty default; (2) losses on insurance products due to mortality experience, morbidity experience or policyholder behavior experience that differs significantly from our expectations when we price our products; (3) changes in interest rates, equity prices and foreign currency exchange rates that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (4) guarantees within certain of our products, in particular our variable annuities, which are market sensitive and may decrease our earnings or increase the volatility of our results of operations or financial position; (5) liquidity needs resulting from (a) derivative collateral market exposure, (b) asset/liability mismatches, (c) the lack of available funding in the financial markets or (d) unexpected cash demands due to severe mortality calamity or lapse events; (6) financial or customer losses, or regulatory and legal actions, due to inadequate or failed processes or systems, human error or misconduct, and external events, such as (a) disruption of our systems and data, (b) an information security breach, (c) a failure to protect the privacy of sensitive data or (d) reliance on third-parties, including to distribute our products; (7) changes in the regulatory landscape, including related to (a) regulation under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (b) changes in tax laws, (c) the U.S. Department of Labor’s fiduciary rules and other fiduciary rule developments, (d) U.S. state insurance laws and developments regarding group-wide supervision, capital and reserves, (e) insurer capital standards outside the U.S. and (f) privacy and cybersecurity regulation; (8) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (9) ratings downgrades; (10) market conditions that may adversely affect the sales or persistency of our products; (11) competition; and (12) reputational damage. Prudential Financial, Inc. does not undertake 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, 2017 for discussion of certain risks relating to our businesses and investment in our securities.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## PRUDENTIAL FINANCIAL, INC.

## Unaudited Interim Consolidated Statements of Financial Position

March 31, 2018 and December 31, 2017 (in millions, except share amounts)

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Fixed maturities, available-for-sale, at fair value (amortized cost: 2018-\$319,180; 2017-\$312,385)(1)  | \$ 347,630        | \$ 346,780           |
| Fixed maturities, held-to-maturity, at amortized cost (fair value: 2018-\$2,511; 2017-\$2,430)(1)  | 2,120             | 2,049                |
| Fixed maturities, trading, at fair value (amortized cost: 2018-\$2,852; 2017-\$3,509)(1)(2)  | 2,885             | 3,507                |
| Assets supporting experience-rated contractholder liabilities, at fair value(1)(2)   | 21,637            | 22,097               |
| Equity securities, at fair value (cost: 2018-\$5,382; 2017-\$5,154)(1)(2)  | 7,289             | 7,329                |
| Commercial mortgage and other loans (includes \$298 and \$593 measured at fair value under the fair value option at March 31, 2018 and December 31, 2017, respectively)(1)                       | 58,098            | 56,045               |
| Policy loans   | 12,036            | 11,891               |
| Other invested assets (includes \$5,647 and \$3,159 measured at fair value at March 31, 2018 and December 31, 2017, respectively)(1)(2)  | 14,044            | 13,373               |
| Short-term investments(2)  | 5,752             | 6,800                |
| Total investments  | 471,491           | 469,871              |
| Cash and cash equivalents(1)   | 15,676            | 14,490               |
| Accrued investment income(1)   | 3,169             | 3,325                |
| Deferred policy acquisition costs  | 19,649            | 18,992               |
| Value of business acquired   | 1,995             | 1,591                |
| Other assets(1)  | 17,112            | 17,250               |
| Separate account assets  | 300,585           | 306,617              |
| <b>TOTAL ASSETS</b>  | <b>\$ 829,677</b> | <b>\$ 832,136</b>    |
| <b>LIABILITIES AND EQUITY</b>  |                   |                      |
| <b>LIABILITIES</b>   |                   |                      |
| Future policy benefits   | \$ 261,144        | \$ 257,317           |
| Policyholders' account balances  | 149,917           | 148,189              |
| Policyholders' dividends   | 5,446             | 6,411                |
| Securities sold under agreements to repurchase   | 8,633             | 8,400                |
| Cash collateral for loaned securities  | 4,312             | 4,354                |
| Income taxes   | 9,296             | 9,648                |
| Short-term debt  | 1,383             | 1,380                |
| Long-term debt   | 18,143            | 17,172               |
| Other liabilities(1)   | 17,689            | 16,619               |
| Notes issued by consolidated variable interest entities (includes \$612 and \$1,196 measured at fair value under the fair value option at March 31, 2018 and December 31, 2017, respectively)(1) | 954               | 1,518                |
| Separate account liabilities   | 300,585           | 306,617              |
| Total liabilities  | 777,502           | 777,625              |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 14)</b>  |                   |                      |
| <b>EQUITY</b>  |                   |                      |
| Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)   | 0                 | 0                    |

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|   |           |            |
|---|-----------|------------|
| Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 660,111,339 shares issued at both March 31, 2018 and December 31, 2017) | 6         | 6          |
| Additional paid-in capital  | 24,722    | 24,769     |
| Common Stock held in treasury, at cost (239,088,607 and 230,537,166 shares at March 31, 2018 and December 31, 2017, respectively)       | (16,557 ) | (16,284 )  |
| Accumulated other comprehensive income (loss)   | 14,761    | 17,074     |
| Retained earnings   | 28,898    | 28,671     |
| Total Prudential Financial, Inc. equity   | 51,830    | 54,236     |
| Noncontrolling interests  | 345       | 275        |
| Total equity  | 52,175    | 54,511     |
| TOTAL LIABILITIES AND EQUITY  | \$829,677 | \$ 832,136 |

(1) See Note 4 for details of balances associated with variable interest entities.

(2) Prior period amounts have been reclassified to conform to current period presentation. See "Adoption of ASU 2016-01" in Note 2 for details.

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See Notes to Unaudited Interim Consolidated Financial Statements

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## PRUDENTIAL FINANCIAL, INC.

## Unaudited Interim Consolidated Statements of Operations

Three Months Ended March 31, 2018 and 2017 (in millions, except per share amounts)

|   | Three Months<br>Ended<br>March 31, |         |
|---|------------------------------------|---------|
|   | 2018                               | 2017    |
| <b>REVENUES</b>   |                                    |         |
| Premiums  | \$7,311                            | \$6,481 |
| Policy charges and fee income   | 1,504                              | 1,533   |
| Net investment income   | 3,998                              | 4,061   |
| Asset management and service fees   | 1,026                              | 951     |
| Other income (loss)   | (507 )                             | 217     |
| Realized investment gains (losses), net:  |                                    |         |
| Other-than-temporary impairments on fixed maturity securities   | (39 )                              | (57 )   |
| Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income | 0                                  | 3       |
| Other realized investment gains (losses), net   | 464                                | 481     |
| Total realized investment gains (losses), net   | 425                                | 427     |
| Total revenues  | 13,757                             | 13,670  |
| <b>BENEFITS AND EXPENSES</b>  |                                    |         |
| Policyholders' benefits   | 7,675                              | 7,025   |
| Interest credited to policyholders' account balances  | 550                                | 940     |
| Dividends to policyholders  | 328                                | 615     |
| Amortization of deferred policy acquisition costs   | 588                                | 439     |
| General and administrative expenses   | 2,923                              | 2,909   |
| Total benefits and expenses   | 12,064                             | 11,928  |
| <b>INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>             | 1,693                              | 1,742   |
| Total income tax expense (benefit)  | 352                                | 395     |
| <b>INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>                              | 1,341                              | 1,347   |
| Equity in earnings of operating joint ventures, net of taxes  | 23                                 | 25      |
| <b>NET INCOME (LOSS)</b>  | 1,364                              | 1,372   |
| Less: Income (loss) attributable to noncontrolling interests  | 1                                  | 3       |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.</b>                                     | \$1,363                            | \$1,369 |
| <b>EARNINGS PER SHARE</b>   |                                    |         |
| Basic earnings per share-Common Stock:  |                                    |         |
| Net income (loss) attributable to Prudential Financial, Inc.  | \$3.19                             | \$3.14  |
| Diluted earnings per share-Common Stock:  |                                    |         |
| Net income (loss) attributable to Prudential Financial, Inc.  | \$3.14                             | \$3.09  |
| Dividends declared per share of Common Stock  | \$0.90                             | \$0.75  |

See Notes to Unaudited Interim Consolidated Financial Statements





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## PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income  
 Three Months Ended March 31, 2018 and 2017 (in millions)

|   | Three Months<br>Ended<br>March 31, |         |
|---|------------------------------------|---------|
|   | 2018                               | 2017    |
| NET INCOME (LOSS)   | \$1,364                            | \$1,372 |
| Other comprehensive income (loss), before tax:                                  |                                    |         |
| Foreign currency translation adjustments for the period                         | 662                                | 552     |
| Net unrealized investment gains (losses)  | (4,666 )                           | (809 )  |
| Defined benefit pension and postretirement unrecognized periodic benefit (cost) | 54                                 | 44      |
| Total   | (3,950 )                           | (213 )  |
| Less: Income tax expense (benefit) related to other comprehensive income (loss) | (844 )                             | (216 )  |
| Other comprehensive income (loss), net of taxes                                 | (3,106 )                           | 3       |
| Comprehensive income (loss)   | (1,742 )                           | 1,375   |
| Less: Comprehensive income (loss) attributable to noncontrolling interests      | 14                                 | (16 )   |
| Comprehensive income (loss) attributable to Prudential Financial, Inc.          | \$(1,756)                          | \$1,391 |

See Notes to Unaudited Interim Consolidated Financial Statements

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## PRUDENTIAL FINANCIAL, INC.

## Unaudited Interim Consolidated Statements of Equity

Three Months Ended March 31, 2018 and 2017 (in millions)

|   | Prudential Financial, Inc. Equity |                                  |                      |  |   |  |                             |                 |
|---|-----------------------------------|----------------------------------|----------------------|--|---|--|-----------------------------|-----------------|
|   | Common<br>Stock                   | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Common<br>Stock<br>Held In<br>Treasury | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Prudential<br>Financial, Inc.<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
| Balance, December 31, 2017                                    | \$6                               | \$24,769                         | \$28,671             | \$(16,284)                             | \$17,074  | \$54,236   | \$275                       | \$54,511        |
| Cumulative effect of adoption of ASU 2016-01                  |                                   |                                  | 904                  |  | (847)   | 57   |                             | 57              |
| Cumulative effect of adoption of ASU 2018-02                  |                                   |                                  | (1,653)              |  | 1,653   | 0  |                             | 0               |
| Common Stock acquired   |                                   |                                  |                      | (375)                                  |   | (375)  |                             | (375)           |
| Contributions from noncontrolling interests                   |                                   |                                  |                      |  |   |  | 61                          | 61              |
| Distributions to noncontrolling interests                     |                                   |                                  |                      |  |   |  | (5)                         | (5)             |
| Consolidations (deconsolidations) of noncontrolling interests |                                   |                                  |                      |  |   |  | 0                           | 0               |
| Stock-based compensation programs                             | (47)                              |                                  |                      | 102                                    |   | 55   |                             | 55              |
| Dividends declared on Common Stock                            |                                   |                                  | (387)                |  |   | (387)  |                             | (387)           |
| Comprehensive income:   |                                   |                                  |                      |  |   |  |                             |                 |
| Net income (loss)   |                                   |                                  | 1,363                |  |   | 1,363  | 1                           | 1,364           |
| Other comprehensive income (loss), net of tax                 |                                   |                                  |                      |  | (3,119)   | (3,119)  | 13                          | (3,106)         |
| Total comprehensive income (loss)                             |                                   |                                  |                      |  |   | (1,756)  | 14                          | (1,742)         |
| Balance, March 31, 2018                                       | \$6                               | \$24,722                         | \$28,898             | \$(16,557)                             | \$14,761  | \$51,830   | \$345                       | \$52,175        |
|   | Prudential Financial, Inc. Equity |                                  |                      |  |   |  |                             |                 |
|   | Common<br>Stock                   | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Common<br>Stock<br>Held In<br>Treasury | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Prudential<br>Financial, Inc.<br>Equity | Noncontrolling<br>Interests | Total<br>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               |
| Elimination of Gibraltar Life reporting lag                   |                                   |                                  | 167                  |  |   | 167  |                             | 167             |
| Common Stock acquired   |                                   |                                  |                      | (312)                                  |   | (312)  |                             | (312)           |
| Contributions from noncontrolling interests                   |                                   |                                  |                      |  |   |  | 4                           | 4               |

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|   |     |          |          |            |          |          |       |          |       |
|---|-----|----------|----------|------------|----------|----------|-------|----------|-------|
| Distributions to noncontrolling interests                     |     |          |          |            |          | (24      | )     | (24      | )     |
| Consolidations (deconsolidations) of noncontrolling interests |     |          |          |            |          | 1        |       | 1        |       |
| Stock-based compensation programs                             | 16  |          | 153      |            |          | 169      |       | 169      |       |
| Dividends declared on Common Stock                            |     | (327     | )        |            |          | (327     | )     | (327     | )     |
| Comprehensive income:   |     |          |          |            |          |          |       |          |       |
| Net income (loss)   |     | 1,369    |          |            |          | 1,369    | 3     | 1,372    |       |
| Other comprehensive income (loss), net of tax                 |     |          |          | 22         |          | 22       | (19   | )        | 3     |
| Total comprehensive income (loss)                             |     |          |          |            |          | 1,391    | (16   | )        | 1,375 |
| Balance, March 31, 2017                                       | \$6 | \$24,627 | \$23,150 | \$(15,475) | \$14,643 | \$46,951 | \$190 | \$47,141 |       |

See Notes to Unaudited Interim Consolidated Financial Statements

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## PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Three Months Ended March 31, 2018 and 2017 (in millions)

|  | 2018      | 2017      |
|--|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |           |           |
| Net income (loss)  | \$1,364   | \$1,372   |
| Adjustments to reconcile net income to net cash provided by operating activities:                      |           |           |
| Realized investment (gains) losses, net  | (425 )    | (427 )    |
| Policy charges and fee income  | (560 )    | (541 )    |
| Interest credited to policyholders' account balances   | 550       | 940       |
| Depreciation and amortization  | (22 )     | (50 )     |
| (Gains) losses on assets supporting experience-rated contractholder liabilities, net(1)                | 403       | (43 )     |
| Change in:   |           |           |
| Deferred policy acquisition costs  | (131 )    | (286 )    |
| Future policy benefits and other insurance liabilities   | 1,859     | 1,849     |
| Income taxes   | 421       | 371       |
| Derivatives, net   | (1,302 )  | (783 )    |
| Other, net(1)  | 144       | (754 )    |
| Cash flows from (used in) operating activities(1)  | 2,301     | 1,648     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |           |           |
| Proceeds from the sale/maturity/prepayment of:   |           |           |
| Fixed maturities, available-for-sale   | 14,665    | 13,389    |
| Fixed maturities, held-to-maturity   | 36        | 49        |
| Fixed maturities, trading(1)   | 207       | 427       |
| Assets supporting experience-rated contractholder liabilities(1)                                       | 3,487     | 6,086     |
| Equity securities(1)   | 980       | 903       |
| Commercial mortgage and other loans  | 1,319     | 714       |
| Policy loans   | 656       | 561       |
| Other invested assets(1)   | 434       | 354       |
| Short-term investments(1)  | 9,870     | 9,297     |
| Payments for the purchase/origination of:  |           |           |
| Fixed maturities, available-for-sale   | (15,652 ) | (17,801 ) |
| Fixed maturities, trading(1)   | (109 )    | (605 )    |
| Assets supporting experience-rated contractholder liabilities(1)                                       | (3,271 )  | (6,024 )  |
| Equity securities(1)   | (890 )    | (747 )    |
| Commercial mortgage and other loans  | (3,489 )  | (1,762 )  |
| Policy loans   | (561 )    | (429 )    |
| Other invested assets  | (713 )    | (349 )    |
| Short-term investments(1)  | (8,837 )  | (6,967 )  |
| Derivatives, net   | (365 )    | 30        |
| Other, net(1)  | (40 )     | (145 )    |
| Cash flows from (used in) investing activities(1)  | (2,273 )  | (3,019 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |           |           |
| Policyholders' account deposits  | 7,456     | 6,926     |
| Policyholders' account withdrawals   | (7,080 )  | (6,570 )  |
| Net change in securities sold under agreements to repurchase and cash collateral for loaned securities | 191       | 771       |
| Cash dividends paid on Common Stock  | (388 )    | (329 )    |
| Net change in financing arrangements (maturities 90 days or less)                                      | (90 )     | 45        |

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|   |          |          |   |
|---|----------|----------|---|
| Common Stock acquired   | (363     | ) (291   | ) |
| Common Stock reissued for exercise of stock options   | 45       | 116      |   |
| Proceeds from the issuance of debt (maturities longer than 90 days)                         | 1,071    | 145      |   |
| Repayments of debt (maturities longer than 90 days)   | (19      | ) (14    | ) |
| Other, net  | 66       | (369     | ) |
| Cash flows from (used in) financing activities  | 889      | 430      |   |
| Effect of foreign exchange rate changes on cash balances                                    | 304      | 116      |   |
| NET INCREASE IN CASH, CASH EQUIVALENTS RESTRICTED CASH AND RESTRICTED CASH EQUIVALENT(1)    | 1,221    | (825     | ) |
| CASH, CASH EQUIVALENTS RESTRICTED CASH AND RESTRICTED CASH EQUIVALENT, BEGINNING OF YEAR(1) | 14,536   | 14,181   |   |
| CASH, CASH EQUIVALENTS RESTRICTED CASH AND RESTRICTED CASH EQUIVALENT, END OF PERIOD(1)     | \$15,757 | \$13,356 |   |
| NON-CASH TRANSACTIONS DURING THE PERIOD   |          |          |   |
| Treasury Stock shares issued for stock-based compensation programs                          | \$129    | \$95     |   |
| RECONCILIATION TO STATEMENT OF FINANCIAL POSITION   |          |          |   |
| Cash and cash equivalents   | \$15,676 | \$13,308 |   |
| Restricted cash and restricted cash equivalents (included in "Other assets")                | 81       | 48       |   |
| Total cash, cash equivalents restricted cash and restricted cash equivalents                | \$15,757 | \$13,356 |   |

(1) Prior period amounts have been reclassified to conform to current period presentation. See Note 2 for details.

See Notes to Unaudited Interim Consolidated Financial Statements

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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 five divisions, which together encompass seven segments, and its Corporate and Other operations. The U.S. Individual Solutions division consists of the Individual Annuities and Individual Life segments. The U.S. Workplace Solutions division consists of the Retirement and Group Insurance segments. The Investment Management division is comprised of the Investment Management segment. The International Insurance division is comprised of the International Insurance segment, and the Closed Block division is comprised 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 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 4 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, 2017.

Elimination of Gibraltar Life Reporting Lag

Prior to January 1, 2018, the Company’s Gibraltar Life Insurance Company, Ltd. (“Gibraltar Life”) consolidated operations used a November 30 fiscal year end for purposes of inclusion in the Company’s Consolidated Financial Statements. The result of this reporting date difference was a one-month reporting lag for Gibraltar Life. As a result, the Company’s unaudited interim consolidated balance sheet as of March 31 previously included the assets and liabilities of Gibraltar Life as of February 28, and the Company’s unaudited interim consolidated income statement previously included Gibraltar Life’s results of operations for the three months ended February 28.

Effective January 1, 2018, the Company converted its Gibraltar Life operations to a December 31 fiscal year end. This action eliminated the one-month reporting lag so that the reporting dates and periods of financial balances and results of Gibraltar Life are consistent with those of the Company. The establishment of a new fiscal year end for Gibraltar

Life is considered a change in accounting principle to a preferable method and requires retrospective application. The Company believes this change in accounting principle is preferable given that it aligns the reporting dates of Prudential Financial and its subsidiaries which allows for more timely and consistent basis of reporting the financial position and results of Gibraltar Life. In order to effect this elimination, the Company restated prior periods' equity which increased "Retained Earnings" by approximately \$167 million as of December 31, 2015, 2016 and 2017. The impact to the Statements of Operations, Statements of Cash Flows, Statements of Comprehensive Income and other balance sheet captions, as a result of the elimination of the reporting lag, was not material for any of the periods presented.



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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.

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

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.

Adoption of ASU 2016-01

Effective January 1, 2018, the Company adopted ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities using a modified retrospective method. Adoption of this ASU impacted the Company’s accounting and presentation related to equity investments. The most significant impact is that the changes in fair value of equity securities previously classified as “available for sale” are to be reported in net income within “Other income” in the Consolidated Statements of Operations. Prior to this, the changes in fair value on equity securities classified as “available for sale” were reported in “Accumulated other comprehensive income.”

The impacts of this ASU on the Company’s Consolidated Financial Statements can be categorized as follows: (1) Changes to the presentation within the Consolidated Statements of Financial Position; (2) Cumulative-effect Adjustment Upon Adoption; and (3) Changes to Accounting Policies. Each of these components is described below. This section is meant to serve as an update to, and should be read in conjunction with, Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

(1) Changes to the presentation within the Consolidated Statements of Financial Position

Because of the fundamental accounting changes as described in section “—(3) Changes to Accounting Policies” below, the Company determined that changes to the presentation of certain balances in the investment section of the Company’s

Consolidated Statements of Financial Position were also necessary to maintain clarity and logical presentation. The table below illustrates these changes by presenting the balances as previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and the reclassifications that were made, along with a footnote explanation of each reclassification.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| Consolidated Statement of Financial Position Line Items                        | December 31, 2017      |                   |         |          |     | As currently reported |
|--|------------------------|-------------------|---------|----------|-----|-----------------------|
|  | As previously reported | Reclassifications |         |          |     |                       |
|  | (1)                    | (2)               | (3)     | (4)      |     |                       |
|  | (in millions)          |                   |         |          |     |                       |
| Fixed maturities, available-for-sale, at fair value                            | \$346,780              |                   |         |          |     | \$346,780             |
| Fixed maturities, held-to-maturity, at amortized cost                          | 2,049                  |                   |         |          |     | 2,049                 |
| * Fixed maturities, trading, at fair value                                     | 0                      |                   |         | 3,507    |     | 3,507                 |
| Trading account assets supporting insurance liabilities, at fair value         | 22,097                 | (22,097)          |         |          |     | 0                     |
| * Assets supporting experience-rated contractholder liabilities, at fair value | 0                      | 22,097            |         |          |     | 22,097                |
| Other trading account assets, at fair value                                    | 5,752                  |                   | (5,752) |          |     | 0                     |
| Equity securities, available-for-sale, at fair value                           | 6,174                  | (6,174)           |         |          |     | 0                     |
| * Equity securities, at fair value   | 0                      | 6,174             | 1,155   |          |     | 7,329                 |
| Commercial mortgage and other loans  | 56,045                 |                   |         |          |     | 56,045                |
| Policy loans   | 11,891                 |                   |         |          |     | 11,891                |
| Other long-term investments  | 12,308                 |                   |         | (12,308) |     | 0                     |
| * Other invested assets  | 0                      |                   | 1,065   | 12,308   |     | 13,373                |
| Short-term investments   | 6,775                  |                   | 25      |          |     | 6,800                 |
| Total investments  | \$469,871              | \$0               | \$0     | \$0      | \$0 | \$469,871             |

\* — New line item effective January 1, 2018.

Strikethrough — Eliminated line item effective January 1, 2018.

(1) Retitled “Trading account assets supporting insurance liabilities, at fair value” to “Assets supporting experience-rated contractholder liabilities, at fair value” as equity securities are included in this line item, and they can no longer be described as trading.

(2) Retitled “Equity securities, available-for-sale, at fair value” to “Equity securities, at fair value” as equity securities can no longer be described as available-for-sale.

(3) Eliminated the line item “Other trading account assets, at fair value” and reclassified each component to another line item.

(4) Retitled “Other long-term investments” to “Other invested assets.”

## (2) Cumulative-effect Adjustment Upon Adoption

The provisions of ASU 2016-01 require that the Company apply the amendments through a cumulative-effect adjustment to the Consolidated Statements of Financial Position as of the beginning of the fiscal year of adoption. The following table illustrates the impact on the Company’s Consolidated Statement of Financial Position as a result of recording this cumulative-effect adjustment on January 1, 2018.

Summary of ASU 2016-01 Transition Impacts on the Consolidated Statement of Financial Position upon Adoption on January 1, 2018 (in millions)

|                       | Increase / (Decrease) |
|-----------------------|-----------------------|
| Other invested assets | \$ 229                |
| Total assets          | \$ 229                |

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|   |        |
|---|--------|
| Policyholders' dividends                      | \$ 157 |
| Income taxes                                  | 15     |
| Total liabilities                             | 172    |
| Accumulated other comprehensive income (loss) | (847 ) |
| Retained earnings                             | 904    |
| Total equity                                  | 57     |
| Total liabilities and equity                  | \$ 229 |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

(3) Changes to Accounting Policies

This section summarizes the changes in our accounting policies resulting from the adoption of ASU 2016-01 as well as an update to the components of the financial statement line items impacted by the Company's Consolidated Statements of Financial Position presentation changes described above.

ASSETS

Fixed maturities, trading is a new financial statement line item comprised of fixed maturities that are carried at fair value. Prior to the adoption of the standard, these fixed maturities were reported in "Other trading account assets, at fair value." These fixed maturities are primarily related to assets associated with consolidated variable interest entities for which the Company is the investment manager and the realized and unrealized gains and losses activity are generally offset by changes in the corresponding liabilities. Realized and unrealized gains and losses on these investments are reported in "Other income," and interest and dividend income from these investments is reported in "Net investment income."

Assets supporting experience-rated contractholder liabilities, at fair value is the new title of the financial statement line item formerly titled "Trading account assets supporting insurance liabilities, at fair value." This financial statement line item includes invested assets that consist of fixed maturities, equity securities, and short-term investments and cash equivalents, that support certain products included in the Retirement and International Insurance segments which are experience-rated, meaning that the investment results associated with these products are expected to ultimately accrue to contractholders. Realized and unrealized gains and losses on these investments are reported in "Other income," and interest and dividend income from these investments is reported in "Net investment income."

Equity securities, at fair value is the new title of the financial statement line item formerly titled "Equity securities, available for sale, at fair value." As a result of the adoption of the standard, equity securities previously reported in "Other trading account asset, at fair value" were reclassified to "Equity securities, at fair value." The retitled financial statement line item is comprised of common stock, mutual fund shares and non-redeemable preferred stock, which are carried at fair value. Realized and unrealized gains and losses on these investments are reported in "Other income," and dividend income is reported in "Net investment income" on the ex-dividend date. Prior to the adoption of the standard, for the equity securities reported in the financial statement line item formerly titled "Equity securities, available for sale, at fair value," the associated net realized gains and losses were included in "Realized investment gains (losses), net" and the associated net unrealized gains and losses were included in "Accumulated other comprehensive income (loss)" ("AOCI"). In addition, with the adoption of the standard, the identification of other-than-temporary impairment ("OTTI") for these investments is no longer needed as all of these investments are now measured at fair value with changes in fair value reported in earnings.

Other invested assets is the new title of the financial statement line item formerly titled "Other long-term investments." Investments previously reported in "Other long-term investments" were reclassified to "Other invested assets." The retitled financial statement line item consists of the Company's non-coupon investments in Limited Partnerships and Limited Liability Companies ("LPs/LLCs") (other than operating joint ventures), wholly-owned investment real estate, derivative assets and other investments. LPs/LLCs interests are accounted for using either the equity method of accounting, or at fair value with changes in fair value reported in "Other income." Prior to the adoption of the standard, the Company applied the cost method of accounting for certain LPs/LLCs interests when its partnership interest was considered minor. The standard effectively eliminated the cost method of accounting for these equity investments. The Company's income from investments in LPs/LLCs accounted for using the equity method, other than the Company's investments in operating joint ventures, is included in "Net investment income." The carrying value of these investments

is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method (including assessment for OTTI), the Company uses financial information provided by the investee, generally on a one to three month lag. For the investments reported at fair value with changes in fair value reported in current earnings, the associated realized and unrealized gains and losses are reported in "Other income." The Company consolidates LPs/LLCs in certain other instances where it is deemed to exercise control, or is considered the primary beneficiary of a variable interest entity. See Note 4 for additional information about VIEs.

#### REVENUES AND BENEFITS AND EXPENSES

Other income includes realized and unrealized gains or losses from investments reported as "Fixed maturities, trading," "Assets supporting experience-rated contractholder liabilities, at fair value," "Equity securities, at fair value," and "Other invested assets" that are measured at fair value.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Adoption of ASU 2014-09

This section is meant to serve as an update to, and should be read in conjunction with, Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), using a modified retrospective method. The core principle of this ASU is that an entity should recognize revenue 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 or services. This core principle is assessed via application of a five-step revenue recognition model that is detailed within the ASU.

There was no material impact to the financial statements at the date of adoption of this ASU. The prospective impact primarily affects revenue recognition policies pertaining to the Company's Investment Management business. This revenue is classified within the "Asset management and service fees" line item in the Consolidated Statements of Operations. Adoption of this standard has no impact on revenues related to financial instruments and insurance contracts (some of which may be reflected within "Asset management and service fees") given that these types of revenues were specifically scoped out of this ASU.

"Asset management and service fees" principally includes asset-based asset management fees (which continue to be recognized in the period in which the services are performed) and performance-based incentive fees. Under the previously existing guidance, the Company recorded performance-based incentive fee revenue when the contractual terms of the asset management fee arrangement were satisfied such that the performance fee was no longer subject to clawback or contingency. Under the new guidance, the Company will record this revenue when the contractual terms of the asset management fee arrangement have been satisfied and it is probable that a significant reversal in the amount of the fee will not occur. Under this principle the Company will continue to record a deferred performance-based incentive fee liability to the extent it receives cash related to the performance-based incentive fee prior to meeting the revenue recognition criteria delineated above.

Asset management and service fee revenues included \$862 million of asset-based management fees, \$5 million of performance-based incentive fees and \$159 million of other fees for the three months ended March 31, 2018. For the three months ended March 31, 2017, asset management and service fee revenues included \$796 million of asset-based management fees, \$7 million of performance-based incentive fees and \$148 million of other fees. These fees predominantly relate to investment management activities but also include certain asset-based fees associated with insurance contracts. In accordance with the provisions of the ASU, the comparative information for the prior period was not restated and continues to be reported under the accounting standards in effect for that period.

Other ASU adopted during the three months ended March 31, 2018

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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 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a Consensus of the Emerging Issues Task Force)     | <p>This ASU addresses diversity in practice in how certain cash receipts and cash payments are 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.</p> <p>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.</p> | January 1, 2018 using the retrospective method (with early adoption permitted provided that all amendments are adopted in the same period).   | Adoption of the ASU did not have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.   |
| ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash   | <p>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.</p>  | January 1, 2018 using the retrospective method (with early adoption permitted).   | Adoption of the ASU did not have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.   |
| ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | In February 2018, this ASU was issued following the enactment of the Tax Act of 2017. This ASU allows an entity to elect a reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Act of 2017.   | January 1, 2019 with early adoption permitted. The ASU should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act of 2017 is recognized. | The Company early adopted the ASU effective January 1, 2018 and elected to apply the ASU in the period of adoption subsequent to recording the adoption impacts of ASU 2016-01 as described above. As a result, the Company reclassified stranded effects resulting from the Tax Act of 2017 by increasing accumulated other comprehensive income and decreasing retained earnings, each by \$1,653 million. |



ASU issued but not yet adopted as of March 31, 2018

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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) which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption.  | 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   | January 1, 2020 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. 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. |

the existing standard for purchased credit deteriorated loans and debt securities.

ASU 2017-04,  
Intangibles -  
Goodwill and Other  
(Topic 350):  
Simplifying the Test  
for Goodwill  
Impairment

This ASU simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test in current GAAP, which measures a goodwill impairment by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of the goodwill. Under the ASU, a goodwill impairment should be recorded for the amount by which the carrying amount of a reporting unit exceeds its fair value (capped by the total amount of goodwill allocated to the reporting unit). January 1, 2020 using the prospective method (with early adoption permitted).

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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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 2017-08, 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) which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. | The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. 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 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) which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. | 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. INVESTMENTS

## Fixed Maturity Securities

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

| March 31, 2018 |                        |                         |            |                 |
|----------------|------------------------|-------------------------|------------|-----------------|
| Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | OTTI in AOCI(4) |
| (in millions)  |                        |                         |            |                 |

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Fixed maturities, available-for-sale:

|  |           |           |          |           |           |
|--|-----------|-----------|----------|-----------|-----------|
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$22,519  | \$ 3,114  | \$ 612   | \$25,021  | \$ 0      |
| Obligations of U.S. states and their political subdivisions                          | 9,483     | 842       | 30       | 10,295    | 0         |
| Foreign government bonds   | 94,181    | 16,498    | 354      | 110,325   | 0         |
| U.S. corporate public securities   | 81,309    | 5,882     | 1,365    | 85,826    | (6 )      |
| U.S. corporate private securities(1)   | 32,121    | 1,528     | 406      | 33,243    | (10 )     |
| Foreign corporate public securities  | 26,776    | 2,635     | 233      | 29,178    | (5 )      |
| Foreign corporate private securities   | 23,829    | 1,179     | 365      | 24,643    | 0         |
| Asset-backed securities(2)   | 12,614    | 226       | 23       | 12,817    | (184 )    |
| Commercial mortgage-backed securities  | 13,021    | 87        | 245      | 12,863    | 0         |
| Residential mortgage-backed securities(3)  | 3,327     | 129       | 37       | 3,419     | (1 )      |
| Total fixed maturities, available-for-sale(1)  | \$319,180 | \$ 32,120 | \$ 3,670 | \$347,630 | \$ (206 ) |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | March 31, 2018    |                              |                               |               |
|---|-------------------|------------------------------|-------------------------------|---------------|
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|   | (in millions)     |                              |                               |               |
| Fixed maturities, held-to-maturity:         |                   |                              |                               |               |
| Foreign government bonds                    | \$915             | \$ 283                       | \$ 0                          | \$1,198       |
| Foreign corporate public securities         | 685               | 75                           | 0                             | 760           |
| Foreign corporate private securities(5)     | 88                | 2                            | 0                             | 90            |
| Commercial mortgage-backed securities       | 0                 | 0                            | 0                             | 0             |
| Residential mortgage-backed securities(3)   | 432               | 31                           | 0                             | 463           |
| Total fixed maturities, held-to-maturity(5) | \$2,120           | \$ 391                       | \$ 0                          | \$2,511       |

(1) Excludes notes with amortized cost of \$2,846 million (fair value, \$2,846 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 unrealized losses remaining in “Accumulated other comprehensive income (loss)” (“AOCI”), from the impairment measurement date. Amount excludes \$440 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 \$4,753 million (fair value, \$4,812 million), which have been offset with the associated payables under a netting agreement.

|  | December 31, 2017 |                              |                               |               |                       |
|--|-------------------|------------------------------|-------------------------------|---------------|-----------------------|
|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | OTTI<br>in<br>AOCI(4) |
|  | (in millions)     |                              |                               |               |                       |
| Fixed maturities, available-for-sale:  |                   |                              |                               |               |                       |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$22,837          | \$ 3,647                     | \$ 346                        | \$26,138      | \$ 0                  |
| Obligations of U.S. states and their political subdivisions                          | 9,366             | 1,111                        | 6                             | 10,471        | 0                     |
| Foreign government bonds   | 88,062            | 15,650                       | 293                           | 103,419       | 0                     |
| U.S. corporate public securities   | 81,967            | 8,671                        | 414                           | 90,224        | (10 )                 |
| U.S. corporate private securities(1)   | 31,852            | 2,051                        | 169                           | 33,734        | (13 )                 |
| Foreign corporate public securities  | 26,389            | 3,118                        | 99                            | 29,408        | (5 )                  |
| Foreign corporate private securities   | 23,322            | 1,242                        | 337                           | 24,227        | 0                     |
| Asset-backed securities(2)   | 11,965            | 278                          | 10                            | 12,233        | (237 )                |
| Commercial mortgage-backed securities  | 13,134            | 238                          | 91                            | 13,281        | 0                     |
| Residential mortgage-backed securities(3)  | 3,491             | 165                          | 11                            | 3,645         | (2 )                  |
| Total fixed maturities, available-for-sale(1)  | \$312,385         | \$ 36,171                    | \$ 1,776                      | \$346,780     | \$ (267 )             |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | December 31, 2017 |                              |                               |               |
|---|-------------------|------------------------------|-------------------------------|---------------|
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|   | (in millions)     |                              |                               |               |
| Fixed maturities, held-to-maturity:         |                   |                              |                               |               |
| Foreign government bonds                    | \$865             | \$ 265                       | \$ 0                          | \$1,130       |
| Foreign corporate public securities         | 654               | 82                           | 0                             | 736           |
| Foreign corporate private securities(5)     | 84                | 2                            | 0                             | 86            |
| Commercial mortgage-backed securities       | 0                 | 0                            | 0                             | 0             |
| Residential mortgage-backed securities(3)   | 446               | 32                           | 0                             | 478           |
| Total fixed maturities, held-to-maturity(5) | \$2,049           | \$ 381                       | \$ 0                          | \$2,430       |

(1) Excludes notes with amortized cost of \$2,660 million (fair value, \$2,660 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 unrealized losses remaining in AOCI, from the impairment measurement date. Amount excludes \$553 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, \$4,913 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 securities had been in a continuous unrealized loss position, as of the dates indicated:

|  | March 31, 2018             |                               |                          |                               |               |                               |
|--|----------------------------|-------------------------------|--------------------------|-------------------------------|---------------|-------------------------------|
|  | Less Than<br>Twelve Months |                               | Twelve Months<br>or More |                               | Total         |                               |
|  | Fair<br>Value              | Gross<br>Unrealized<br>Losses | Fair<br>Value            | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses |
|  | (in millions)              |                               |                          |                               |               |                               |
| Fixed maturities(1):   |                            |                               |                          |                               |               |                               |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$4,324                    | \$ 127                        | \$4,984                  | \$ 485                        | \$9,308       | \$ 612                        |
| Obligations of U.S. states and their political subdivisions                          | 1,217                      | 16                            | 264                      | 14                            | 1,481         | 30                            |
| Foreign government bonds   | 3,882                      | 133                           | 2,866                    | 221                           | 6,748         | 354                           |
| U.S. corporate public securities   | 28,236                     | 822                           | 5,983                    | 543                           | 34,219        | 1,365                         |
| U.S. corporate private securities  | 10,588                     | 230                           | 2,123                    | 176                           | 12,711        | 406                           |
| Foreign corporate public securities  | 5,635                      | 126                           | 1,478                    | 107                           | 7,113         | 233                           |
| Foreign corporate private securities   | 4,804                      | 86                            | 3,588                    | 279                           | 8,392         | 365                           |
| Asset-backed securities  | 2,511                      | 13                            | 297                      | 10                            | 2,808         | 23                            |

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|  |          |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|----------|
| Commercial mortgage-backed securities  | 5,843    | 116      | 2,138    | 129      | 7,981    | 245      |
| Residential mortgage-backed securities | 1,161    | 24       | 276      | 13       | 1,437    | 37       |
| Total                                  | \$68,201 | \$ 1,693 | \$23,997 | \$ 1,977 | \$92,198 | \$ 3,670 |

(1) Includes \$13 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 March 31, 2018.



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | December 31, 2017          |                               |                          |                               |               |                               |
|---|----------------------------|-------------------------------|--------------------------|-------------------------------|---------------|-------------------------------|
|   | Less Than<br>Twelve Months |                               | Twelve Months<br>or More |                               | Total         |                               |
|   | Fair<br>Value              | Gross<br>Unrealized<br>Losses | Fair<br>Value            | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses |
|   | (in millions)              |                               |                          |                               |               |                               |
| Fixed maturities(1):  |                            |                               |                          |                               |               |                               |
| U.S. Treasury securities and obligations of U.S.<br>government authorities and agencies | \$3,450                    | \$ 28                         | \$6,391                  | \$ 318                        | \$9,841       | \$ 346                        |
| Obligations of U.S. states and their political subdivisions                             | 44                         | 0                             | 287                      | 6                             | 331           | 6                             |
| Foreign government bonds  | 4,417                      | 55                            | 2,937                    | 238                           | 7,354         | 293                           |
| U.S. corporate public securities  | 7,914                      | 110                           | 6,831                    | 304                           | 14,745        | 414                           |
| U.S. corporate private securities   | 4,596                      | 76                            | 2,009                    | 93                            | 6,605         | 169                           |
| Foreign corporate public securities   | 2,260                      | 21                            | 1,678                    | 78                            | 3,938         | 99                            |
| Foreign corporate private securities  | 1,213                      | 20                            | 5,339                    | 317                           | 6,552         | 337                           |
| Asset-backed securities   | 564                        | 2                             | 366                      | 8                             | 930           | 10                            |
| Commercial mortgage-backed securities   | 2,593                      | 17                            | 2,212                    | 74                            | 4,805         | 91                            |
| Residential mortgage-backed securities  | 584                        | 4                             | 286                      | 7                             | 870           | 11                            |
| Total   | \$27,635                   | \$ 333                        | \$28,336                 | \$ 1,443                      | \$55,971      | \$ 1,776                      |

(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, 2017.

As of March 31, 2018 and December 31, 2017, the gross unrealized losses on fixed maturity securities were composed of \$3,182 million and \$1,470 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 \$488 million and \$306 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of March 31, 2018, the \$1,977 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in U.S. government bonds, foreign government bonds and in the Company’s corporate securities within the consumer non-cyclical, energy and utility sectors. As of December 31, 2017, the \$1,433 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in U.S. government bonds, foreign government bonds and in the Company’s corporate securities within the energy, utility and consumer non-cyclical sectors. 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, 2017, the Company concluded that an adjustment to earnings for OTTI for these fixed maturity securities was not warranted at either March 31, 2018 or December 31, 2017. 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 March 31, 2018, 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.

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | March 31, 2018                          |               | Held-to-Maturity  |               |
|--|---|---------------|-------------------|---------------|
|  | Available-for-Sale<br>Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
|  | (in millions)                           |               |                   |               |
| Fixed maturities:                      |   |               |                   |               |
| Due in one year or less                | \$13,067                                | \$13,597      | \$0               | \$0           |
| Due after one year through five years  | 50,349                                  | 53,811        | 185               | 191           |
| Due after five years through ten years | 66,026                                  | 70,770        | 592               | 663           |
| Due after ten years(1)                 | 160,776                                 | 180,353       | 911               | 1,194         |
| Asset-backed securities                | 12,614                                  | 12,817        | 0                 | 0             |
| Commercial mortgage-backed securities  | 13,021                                  | 12,863        | 0                 | 0             |
| Residential mortgage-backed securities | 3,327                                   | 3,419         | 432               | 463           |
| Total                                  | \$319,180                               | \$347,630     | \$2,120           | \$2,511       |

Excludes available-for-sale notes with amortized cost of \$2,846 million (fair value, \$2,846 million) and (1) held-to-maturity notes with amortized cost of \$4,753 million (fair value, \$4,812 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 proceeds and related investment gains (losses), as well as losses on impairments of fixed maturities, for the periods indicated:

|   | Three Months<br>Ended March 31, |         |
|---|---------------------------------|---------|
|   | 2018                            | 2017    |
|   | (in millions)                   |         |
| Fixed maturities, available-for-sale:             |                                 |         |
| Proceeds from sales(1)                            | \$9,585                         | \$7,730 |
| Proceeds from maturities/prepayments              | 5,226                           | 5,874   |
| Gross investment gains from sales and maturities  | 374                             | 391     |
| Gross investment losses from sales and maturities | (257 )                          | (163 )  |
| OTTI recognized in earnings(2)                    | (39 )                           | (54 )   |
| Fixed maturities, held-to-maturity:               |                                 |         |
| Proceeds from maturities/prepayments(3)           | \$36                            | \$50    |

(1) Includes \$146 million and \$215 million of non-cash related proceeds due to the timing of trade settlements for the three months ended March 31, 2018 and 2017, respectively.

(2) Excludes the portion of OTTI amounts remaining in “Other comprehensive income (loss)” (“OCI”), representing any difference 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 \$0 million and \$1 million of non-cash related proceeds due to the timing of trade settlements for the three months ended March 31, 2018 and 2017, respectively.

The following table sets forth a rollforward of pre-tax amounts remaining in OCI related to fixed maturity securities with credit loss impairments recognized in earnings, for the periods indicated:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | Three<br>Months<br>Ended March<br>31,<br>2018 2017<br>(in millions) |       |
|--|---|-------|
| Credit loss impairments:   |   |       |
| Balance, beginning of period   | \$319   | \$359 |
| New credit loss impairments  | 0   | 0     |
| Additional credit loss impairments on securities previously impaired   | 0   | 1     |
| Increases due to the passage of time on previously recorded credit losses  | 2   | 3     |
| Reductions for securities which matured, paid down, prepaid or were sold during the period                           | (113 )  | (9 )  |
| Reductions for securities impaired to fair value during the period(1)  | (4 )  | (3 )  |
| Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected | (1 )  | (1 )  |
| Balance, end of period   | \$203   | \$350 |

(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.

## Assets Supporting Experience-Rated Contractholder Liabilities

The following table sets forth the composition of "Assets supporting experience-rated contractholder liabilities," as of the dates indicated:

|   | March 31, 2018                                |               | December 31,<br>2017         |               |
|---|---|---------------|------------------------------|---------------|
|   | Amortized<br>Cost or<br>Cost<br>(in millions) | Fair<br>Value | Amortized<br>Cost or<br>Cost | Fair<br>Value |
| Short-term investments and cash equivalents                             | \$151   | \$151         | \$245                        | \$245         |
| Fixed maturities:   |   |               |                              |               |
| Corporate securities  | 13,573  | 13,627        | 13,816                       | 14,073        |
| Commercial mortgage-backed securities                                   | 2,394   | 2,369         | 2,294                        | 2,311         |
| Residential mortgage-backed securities(1)                               | 923   | 908           | 961                          | 966           |
| Asset-backed securities(2)  | 1,398   | 1,426         | 1,363                        | 1,392         |
| Foreign government bonds  | 1,101   | 1,104         | 1,050                        | 1,057         |
| U.S. government authorities and agencies and obligations of U.S. states | 367   | 400           | 357                          | 410           |
| Total fixed maturities  | 19,756  | 19,834        | 19,841                       | 20,209        |
| Equity securities   | 1,395   | 1,652         | 1,278                        | 1,643         |
| Total assets supporting experience-rated contractholder liabilities     | \$21,302                                      | \$21,637      | \$21,364                     | \$22,097      |

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

(2) 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 assets supporting experience-rated contractholder liabilities still held at period end, recorded within “Other income,” was \$(398) million and \$46 million during the three months ended March 31, 2018 and 2017, respectively.

#### Equity Securities

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within “Other income,” was \$(188) million and \$43 million during the three months ended March 31, 2018 and 2017, respectively.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 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:

|  | March 31, 2018 |            | December 31, 2017 |            |
|--|----------------|------------|-------------------|------------|
|  | Amortized Cost | Fair Value | Amortized Cost    | Fair Value |
| Investments in Japanese government and government agency securities: |                |            |                   |            |
| Fixed maturities, available-for-sale                                 | \$69,800       | \$82,712   | \$64,628          | \$76,311   |
| Fixed maturities, held-to-maturity                                   | 893            | 1,170      | 844               | 1,103      |
| Fixed maturities, trading  | 24             | 24         | 23                | 23         |
| Assets supporting experience-rated contractholder liabilities        | 705            | 717        | 657               | 667        |
| Total  | \$71,422       | \$84,623   | \$66,152          | \$78,104   |

|  | March 31, 2018 |            | December 31, 2017 |            |
|--|----------------|------------|-------------------|------------|
|  | Amortized Cost | Fair Value | Amortized Cost    | Fair Value |
| Investments in South Korean government and government agency securities: |                |            |                   |            |
| Fixed maturities, available-for-sale                                     | \$9,824        | \$11,124   | \$9,425           | \$10,989   |
| Fixed maturities, held-to-maturity                                       | 0              | 0          | 0                 | 0          |
| Fixed maturities, trading  | 0              | 0          | 0                 | 0          |
| Assets supporting experience-rated contractholder liabilities            | 15             | 15         | 15                | 15         |
| Total  | \$9,839        | \$11,139   | \$9,440           | \$11,004   |

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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:

|  | March 31, 2018         |               | December 31, 2017      |               |
|--|------------------------|---------------|------------------------|---------------|
|  | Amount<br>(in million) | % of<br>Total | Amount<br>(in million) | % of<br>Total |
| Commercial mortgage and agricultural property loans by property type:          |                        |               |                        |               |
| Office   | \$13,257               | 23.1 %        | \$12,670               | 22.9 %        |
| Retail   | 8,751                  | 15.3          | 8,543                  | 15.5          |
| Apartments/Multi-Family  | 15,670                 | 27.4          | 15,465                 | 28.0          |
| Industrial   | 10,656                 | 18.6          | 9,451                  | 17.1          |
| Hospitality  | 1,953                  | 3.4           | 2,067                  | 3.7           |
| Other  | 3,806                  | 6.6           | 3,888                  | 7.0           |
| Total commercial mortgage loans  | 54,093                 | 94.4          | 52,084                 | 94.2          |
| Agricultural property loans  | 3,223                  | 5.6           | 3,203                  | 5.8           |
| Total commercial mortgage and agricultural property loans by property type     | 57,316                 | 100.0%        | 55,287                 | 100.0%        |
| Valuation allowance  | (102 )                 |               | (100 )                 |               |
| Total net commercial mortgage and agricultural property loans by property type | 57,214                 |               | 55,187                 |               |
| Other loans:   |                        |               |                        |               |
| Uncollateralized loans   | 690                    |               | 663                    |               |
| Residential property loans   | 196                    |               | 196                    |               |
| Other collateralized loans   | 4                      |               | 5                      |               |
| Total other loans  | 890                    |               | 864                    |               |
| Valuation allowance  | (6 )                   |               | (6 )                   |               |
| Total net other loans  | 884                    |               | 858                    |               |
| Total commercial mortgage and other loans(1)                                   | \$58,098               |               | \$56,045               |               |

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

(1) As of March 31, 2018 and December 31, 2017, the net carrying value of these loans was \$298 million and \$593 million, respectively.

As of March 31, 2018, the commercial mortgage and agricultural property loans were geographically dispersed throughout the United States (with the largest concentrations in California (27%), Texas (9%) and New York (8%)) and included loans secured by properties in Europe (6%), Australia (1%) and Asia (1%).



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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:

|   | March 31, 2018            |                             |                            |                            |                        |  |       |
|---|---------------------------|-----------------------------|----------------------------|----------------------------|------------------------|--|-------|
|   | 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                      | \$ 3                        | \$ 1                       | \$ 0                       | \$ 5                   |  | \$106 |
| Addition to (release of) allowance for losses | 2                         | 0                           | 0                          | 0                          | 0                      |  | 2     |
| Charge-offs, net of recoveries                | 0                         | 0                           | 0                          | 0                          | 0                      |  | 0     |
| Change in foreign exchange                    | 0                         | 0                           | 0                          | 0                          | 0                      |  | 0     |
| Total ending balance                          | \$99                      | \$ 3                        | \$ 1                       | \$ 0                       | \$ 5                   |  | \$108 |

|   | December 31, 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 | 2                         | 1                           | (1)                        | 0                          | (1)                    |  | 1     |
| Charge-offs, net of recoveries                | (1)                       | 0                           | 0                          | 0                          | 0                      |  | (1)   |
| Change in foreign exchange                    | 0                         | 0                           | 0                          | 0                          | 0                      |  | 0     |
| Total ending balance                          | \$97                      | \$ 3                        | \$ 1                       | \$ 0                       | \$ 5                   |  | \$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:

|                                       | March 31, 2018            |                             |                            |                            |                        |  |          |
|---------------------------------------|---------------------------|-----------------------------|----------------------------|----------------------------|------------------------|--|----------|
|                                       | 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 | \$7                       | \$ 0                        | \$ 0                       | \$ 0                       | \$ 0                   |  | \$7      |
| Collectively evaluated for impairment | 92                        | 3                           | 1                          | 0                          | 5                      |  | 101      |
| Total ending balance(1)               | \$99                      | \$ 3                        | \$ 1                       | \$ 0                       | \$ 5                   |  | \$108    |
| Recorded investment(2):               |                           |                             |                            |                            |                        |  |          |
| Individually evaluated for impairment | \$71                      | \$ 35                       | \$ 0                       | \$ 0                       | \$ 2                   |  | \$108    |
| Collectively evaluated for impairment | 54,022                    | 3,188                       | 196                        | 4                          | 688                    |  | 58,098   |
| Total ending balance(1)               | \$54,093                  | \$ 3,223                    | \$ 196                     | \$ 4                       | \$ 690                 |  | \$58,206 |

(1) As of March 31, 2018, there were no loans acquired with deteriorated credit quality.

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|                                       | December 31, 2017               |                                   |                                  |                                  |        | Uncollateralized<br>Loans | Total |
|---------------------------------------|---------------------------------|-----------------------------------|----------------------------------|----------------------------------|--------|---------------------------|-------|
|                                       | Commercial<br>Mortgage<br>Loans | Agricultural<br>Property<br>Loans | Residential<br>Property<br>Loans | Other<br>Collateralized<br>Loans |        |                           |       |
|                                       | (in millions)                   |                                   |                                  |                                  |        |                           |       |
| Allowance for credit losses:          |                                 |                                   |                                  |                                  |        |                           |       |
| Individually evaluated for impairment | \$ 7                            | \$ 0                              | \$ 0                             | \$ 0                             | \$ 0   | \$ 7                      |       |
| Collectively evaluated for impairment | 90                              | 3                                 | 1                                | 0                                | 5      | 99                        |       |
| Total ending balance(1)               | \$ 97                           | \$ 3                              | \$ 1                             | \$ 0                             | \$ 5   | \$ 106                    |       |
| Recorded investment(2):               |                                 |                                   |                                  |                                  |        |                           |       |
| Individually evaluated for impairment | \$ 75                           | \$ 39                             | \$ 0                             | \$ 0                             | \$ 2   | \$ 116                    |       |
| Collectively evaluated for impairment | 52,009                          | 3,164                             | 196                              | 5                                | 661    | 56,035                    |       |
| Total ending balance(1)               | \$ 52,084                       | \$ 3,203                          | \$ 196                           | \$ 5                             | \$ 663 | \$ 56,151                 |       |

(1) As of December 31, 2017, 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

|                                 | March 31, 2018              |               |        |           |
|---------------------------------|-----------------------------|---------------|--------|-----------|
|                                 | Debt Service Coverage Ratio |               |        |           |
|                                 | >1.2X                       | 1.0X to <1.2X | < 1.0X | Total     |
|                                 | (in millions)               |               |        |           |
| Loan-to-Value Ratio:            |                             |               |        |           |
| 0%-59.99%                       | \$ 30,215                   | \$ 682        | \$ 265 | \$ 31,162 |
| 60%-69.99%                      | 14,694                      | 621           | 156    | 15,471    |
| 70%-79.99%                      | 6,524                       | 702           | 10     | 7,236     |
| 80% or greater                  | 84                          | 116           | 24     | 224       |
| Total commercial mortgage loans | \$ 51,517                   | \$ 2,121      | \$ 455 | \$ 54,093 |

## Agricultural property loans

|                                   | March 31, 2018              |               |        |          |
|-----------------------------------|-----------------------------|---------------|--------|----------|
|                                   | Debt Service Coverage Ratio |               |        |          |
|                                   | >1.2X                       | 1.0X to <1.2X | < 1.0X | Total    |
|                                   | (in millions)               |               |        |          |
| Loan-to-Value Ratio:              |                             |               |        |          |
| 0%-59.99%                         | \$ 2,974                    | \$ 175        | \$ 2   | \$ 3,151 |
| 60%-69.99%                        | 72                          | 0             | 0      | 72       |
| 70%-79.99%                        | 0                           | 0             | 0      | 0        |
| 80% or greater                    | 0                           | 0             | 0      | 0        |
| Total agricultural property loans | \$ 3,046                    | \$ 175        | \$ 2   | \$ 3,223 |



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Total commercial mortgage and agricultural property loans

March 31, 2018  
Debt Service Coverage Ratio  
>1.2X    1.0X to <1.2X    <1.0X    Total  
(in millions)

## Loan-to-Value Ratio:

|   |          |          |       |          |
|---|----------|----------|-------|----------|
| 0%-59.99%   | \$33,189 | \$ 857   | \$267 | \$34,313 |
| 60%-69.99%  | 14,766   | 621      | 156   | 15,543   |
| 70%-79.99%  | 6,524    | 702      | 10    | 7,236    |
| 80% or greater  | 84       | 116      | 24    | 224      |
| Total commercial mortgage and agricultural property loans | \$54,563 | \$ 2,296 | \$457 | \$57,316 |

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, 2017  
Debt Service Coverage Ratio  
>1.2X    1.0X to <1.2X    <1.0X    Total  
(in millions)

## Loan-to-Value Ratio:

|                                 |          |          |       |          |
|---------------------------------|----------|----------|-------|----------|
| 0%-59.99%                       | \$30,082 | \$ 639   | \$251 | \$30,972 |
| 60%-69.99%                      | 13,658   | 530      | 121   | 14,309   |
| 70%-79.99%                      | 5,994    | 514      | 29    | 6,537    |
| 80% or greater                  | 93       | 54       | 119   | 266      |
| Total commercial mortgage loans | \$49,827 | \$ 1,737 | \$520 | \$52,084 |

## Agricultural property loans

December 31, 2017  
Debt Service Coverage Ratio  
>1.2X    1.0X to <1.2X    <1.0X    Total  
(in millions)

## Loan-to-Value Ratio:

|                                   |         |        |      |         |
|-----------------------------------|---------|--------|------|---------|
| 0%-59.99%                         | \$2,988 | \$ 170 | \$ 5 | \$3,163 |
| 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 | \$3,028 | \$ 170 | \$ 5 | \$3,203 |

## Total commercial mortgage and agricultural property loans

December 31, 2017  
Debt Service Coverage Ratio  
>1.2X    1.0X to <1.2X    Total

|   |               |          | <     |          |
|---|---------------|----------|-------|----------|
|   |               |          | 1.0X  |          |
|   | (in millions) |          |       |          |
| Loan-to-Value Ratio:                                      |               |          |       |          |
| 0%-59.99%   | \$33,070      | \$ 809   | \$256 | \$34,135 |
| 60%-69.99%  | 13,698        | 530      | 121   | 14,349   |
| 70%-79.99%  | 5,994         | 514      | 29    | 6,537    |
| 80% or greater  | 93            | 54       | 119   | 266      |
| Total commercial mortgage and agricultural property loans | \$52,855      | \$ 1,907 | \$525 | \$55,287 |

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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:

| March 31, 2018              |                        |                        |   |                   |                |                          |       |
|-----------------------------|------------------------|------------------------|---|-------------------|----------------|--------------------------|-------|
| Current                     | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90<br>Days or<br>More<br>Past<br>Due(1) | Total Past<br>Due | Total<br>Loans | Non-Accrual<br>Status(2) |       |
| (in millions)               |                        |                        |   |                   |                |                          |       |
| Commercial mortgage loans   | \$54,093               | \$ 0                   | \$ 0                                    | \$ 0              | \$ 0           | \$54,093                 | \$ 70 |
| Agricultural property loans | 3,222                  | 0                      | 0                                       | 1                 | 1              | 3,223                    | 23    |
| Residential property loans  | 191                    | 2                      | 1                                       | 2                 | 5              | 196                      | 2     |
| Other collateralized loans  | 4                      | 0                      | 0                                       | 0                 | 0              | 4                        | 0     |
| Uncollateralized loans      | 690                    | 0                      | 0                                       | 0                 | 0              | 690                      | 0     |
| Total                       | \$58,200               | \$ 2                   | \$ 1                                    | \$ 3              | \$ 6           | \$58,206                 | \$ 95 |

(1) As of March 31, 2018, 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, 2017.

| December 31, 2017           |                        |                        |   |                   |                |                          |       |
|-----------------------------|------------------------|------------------------|---|-------------------|----------------|--------------------------|-------|
| Current                     | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90<br>Days or<br>More<br>Past<br>Due(1) | Total Past<br>Due | Total<br>Loans | Non-Accrual<br>Status(2) |       |
| (in millions)               |                        |                        |   |                   |                |                          |       |
| Commercial mortgage loans   | \$52,084               | \$ 0                   | \$ 0                                    | \$ 0              | \$ 0           | \$52,084                 | \$ 71 |
| Agricultural property loans | 3,201                  | 0                      | 0                                       | 2                 | 2              | 3,203                    | 23    |
| Residential property loans  | 191                    | 3                      | 0                                       | 2                 | 5              | 196                      | 2     |
| Other collateralized loans  | 5                      | 0                      | 0                                       | 0                 | 0              | 5                        | 0     |
| Uncollateralized loans      | 663                    | 0                      | 0                                       | 0                 | 0              | 663                      | 0     |
| Total                       | \$56,144               | \$ 3                   | \$ 0                                    | \$ 4              | \$ 7           | \$56,151                 | \$ 96 |

(1) As of December 31, 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, 2017.

For the three months ended March 31, 2018 and 2017, there were no commercial mortgage and other loans acquired, other than those through direct origination. For the three months ended March 31, 2018 and 2017, 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 months ended March 31, 2018, there were \$24 million of new troubled debt restructurings related to commercial mortgage and other loans with payment defaults on loans that were modified as a troubled debt restructuring within the twelve months preceding. During the three months ended March 31, 2017, there were no new troubled debt restructurings related to commercial mortgage and other loans with payment defaults on loans that were modified as a troubled debt restructuring within the twelve months preceding. As of both March 31, 2018 and December 31, 2017, 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, 2017.

As of March 31, 2018, there were \$4 million of private debt commitments to provide additional funds to borrowers that had been involved in a troubled debt restructuring.



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Other Invested Assets

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

|  | March 31      | December 31, |
|--|---------------|--------------|
|  | 2018          | 2017         |
|  | (in millions) |              |
| LPs/LLCs:                                    |               |              |
| Equity method:                               |               |              |
| Private equity                               | \$2,929       | \$ 2,954     |
| Hedge funds                                  | 907           | 803          |
| Real estate-related                          | 1,153         | 972          |
| Subtotal equity method                       | 4,989         | 4,729        |
| Fair value:                                  |               |              |
| Private equity                               | 1,622         | 1,325        |
| Hedge funds                                  | 2,387         | 2,419        |
| Real estate-related                          | 288           | 247          |
| Subtotal fair value(1)                       | 4,297         | 3,991        |
| Total LPs/LLCs                               | 9,286         | 8,720        |
| Real estate held through direct ownership(2) | 2,421         | 2,409        |
| Derivative instruments                       | 1,226         | 1,214        |
| Other(3)                                     | 1,111         | 1,030        |
| Total other invested assets(4)               | \$14,044      | \$ 13,373    |

(1) As of December 31, 2017, \$1,572 million was accounted for using the cost method.

(2) As of March 31, 2018 and December 31, 2017, real estate held through direct ownership had mortgage debt of \$802 million and \$799 million, respectively.

Primarily includes strategic investments made by investment management operations, leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For 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, 2017.

(3) Prior period amounts have been reclassified to conform to current period presentation. For additional information, see Note 2.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Net Investment Income

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

|  | Three Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |         |
|--|--|---------|
| Fixed maturities, available-for-sale(1)                                      | \$2,954  | \$2,795 |
| Fixed maturities, held-to-maturity(1)  | 55   | 54      |
| Fixed maturities, trading  | 31   | 42      |
| Assets supporting experience-rated contractholder liabilities, at fair value | 191  | 195     |
| Equity securities, at fair value   | 35   | 90      |
| Commercial mortgage and other loans  | 569  | 537     |
| Policy loans   | 152  | 152     |
| Other invested assets  | 141  | 332     |
| Short-term investments and cash equivalents                                  | 72   | 44      |
| Gross investment income  | 4,200  | 4,241   |
| Less: investment expenses  | (202 )   | (180 )  |
| Net investment income(2)   | \$3,998  | \$4,061 |

(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.

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

## Realized Investment Gains (Losses), Net

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

|   | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |       |
|---|---|-------|
| Fixed maturities(1)                     | \$78  | \$174 |
| Equity securities(2)                    | 0   | 256   |
| Commercial mortgage and other loans     | 12  | 14    |
| Investment real estate                  | 2   | 6     |
| LPs/LLCs                                | 6   | (11 ) |
| Derivatives(3)                          | 328   | (11 ) |
| Other                                   | (1 )  | (1 )  |
| Realized investment gains (losses), net | \$425   | \$427 |

(1) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading.

(2) Effective January 1, 2018, realized gains (losses) on equity securities are recorded within "Other income."

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

Net Unrealized Gains (Losses) on Investments within AOCI

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | March 31, December 31, |           |
|---|------------------------|-----------|
|   | 2018                   | 2017      |
|   | (in millions)          |           |
| Fixed maturity securities, available-for-sale—with OTIS | \$ 234                 | \$ 286    |
| Fixed maturity securities, available-for-sale—all other | 28,216                 | 34,109    |
| Equity securities, available-for-sale(1)                | 0                      | 2,027     |
| Derivatives designated as cash flow hedges(2)           | (622 )                 | (39 )     |
| Other investments(3)                                    | 26                     | 15        |
| Net unrealized gains (losses) on investments            | \$27,854               | \$ 36,398 |

(1) Effective January 1, 2018, unrealized gains (losses) on equity securities are recorded within “Other income.”

(2) For more information on cash flow hedges, see Note 5.

As of March 31, 2018, there were no net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in “Other assets.”

## 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:

|  | March 31, 2018   |        |               | December 31, 2017  |         |               |
|--|--|--------|---------------|--|---------|---------------|
|  | Remaining Contractual Maturities of the Agreements Overnight & 30 Days | Total  | (in millions) | Remaining Contractual Maturities of the Agreements Overnight & 30 Days | Total   | (in millions) |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$8,150  | \$ 342 | \$8,492       | \$911  | \$7,349 | \$8,260       |
| U.S. corporate public securities   | 1  | 0      | 1             | 1  | 0       | 1             |
| Foreign corporate public securities  | 0  | 0      | 0             | 0  | 0       | 0             |
| Residential mortgage-backed securities   | 117  | 23     | 140           | 0  | 139     | 139           |
| Equity securities  | 0  | 0      | 0             | 0  | 0       | 0             |
| Total securities sold under agreements to repurchase(1)                              | \$8,268  | \$ 365 | \$8,633       | \$912  | \$7,488 | \$8,400       |

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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:

|  | March 31, 2018  |       |               | December 31, 2017   |       |               |
|--|---|-------|---------------|---|-------|---------------|
|  | Remaining Contractual Maturities of the Agreements Overnight to & 30 Days | Total | (in millions) | Remaining Contractual Maturities of the Agreements Overnight to & 30 Days | Total | (in millions) |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$94  | \$321 | \$415         | \$87  | \$35  | \$122         |
| Obligations of U.S. states and their political subdivisions                          | 129   | 0     | 129           | 103   | 0     | 103           |
| Foreign government bonds   | 287   | 0     | 287           | 335   | 0     | 335           |
| U.S. corporate public securities   | 2,758   | 0     | 2,758         | 2,961   | 0     | 2,961         |
| Foreign corporate public securities  | 630   | 0     | 630           | 655   | 0     | 655           |
| Residential mortgage-backed securities   | 0   | 24    | 24            | 0   | 0     | 0             |
| Equity securities  | 69  | 0     | 69            | 178   | 0     | 178           |
| Total cash collateral for loaned securities(1)                                       | \$3,967   | \$345 | \$4,312       | \$4,319   | \$35  | \$4,354       |

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

## 4. 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, 2017.

## 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. 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)(2) |                   |                |                   |
|--------------------------------------|---|-------------------|----------------|-------------------|
|                                      | March 31, 2018  | December 31, 2017 | March 31, 2018 | December 31, 2017 |
| Fixed maturities, available-for-sale | \$79  | \$69              | \$291          | \$275             |

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|   |         |          |          |          |
|---|---------|----------|----------|----------|
| Fixed maturities, held-to-maturity                            | 88      | 83       | 858      | 810      |
| Fixed maturities, trading                                     | 1,078   | 1,623    | 0        | 0        |
| Assets supporting experience-rated contractholder liabilities | 0       | 0        | 9        | 9        |
| Equity securities   | 28      | 28       | 0        | 0        |
| Commercial mortgage and other loans                           | 649     | 617      | 0        | 0        |
| Other invested assets   | 1,368   | 1,390    | 68       | 97       |
| Cash and cash equivalents                                     | 140     | 164      | 0        | 0        |
| Accrued investment income                                     | 5       | 7        | 4        | 4        |
| Other assets  | 462     | 440      | 151      | 150      |
| Total assets of consolidated VIEs                             | \$3,897 | \$ 4,421 | \$ 1,381 | \$ 1,345 |
| Other liabilities   | \$340   | \$ 433   | \$ 8     | \$ 0     |
| Notes issued by consolidated VIEs(3)                          | \$954   | \$ 1,518 | \$ 0     | \$ 0     |
| Total liabilities of consolidated VIEs                        | \$1,294 | \$ 1,951 | \$ 8     | \$ 0     |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

(1) Prior period amounts have been reclassified to conform to current period presentation. See Note 2 for additional information.

Total assets of consolidated VIEs reflect \$1,815 million and \$1,716 million as of March 31, 2018 and December 31, 2017, respectively, related to VIEs whose beneficial interests are wholly-owned by consolidated subsidiaries.

(3) Recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company. As of March 31, 2018 and December 31, 2017, 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 \$1,177 million and \$1,013 million at March 31, 2018 and December 31, 2017, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Fixed maturities, trading," "Equity securities" and "Other invested assets." 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 LPs/LLCs, which 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 invested assets" and its maximum exposure to loss associated with these entities was \$9,286 million and \$8,720 million as of March 31, 2018 and December 31, 2017, 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 3 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.

## 5. 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: futures, swaps, options, swaptions, caps and floors
- Equity contracts: futures, 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 ("TBA") forward contracts, loan commitments, embedded derivatives and synthetic guaranteed investment contracts ("GICs")

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, 2017.

#### 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 risk, excluding embedded derivatives and associated reinsurance recoverables. Many derivative instruments contain multiple underlying risks. 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 non-performance risk ("NPR"). This netting impact results in total derivative assets of \$1,219 million and \$1,205 million as of March 31, 2018 and December 31, 2017, respectively, and total derivative liabilities of \$1,249 million and \$643 million as of March 31, 2018 and December 31, 2017, respectively, reflected in the Unaudited Interim Consolidated Statements of Financial Position.



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| Primary Underlying Risk /Instrument Type       | March 31, 2018   |         |             | December 31, 2017 |          |             |
|--|------------------|---------|-------------|-------------------|----------|-------------|
|  | Gross Fair Value |         |             | Gross Fair Value  |          |             |
|  | Notional         | Assets  | Liabilities | Notional          | Assets   | Liabilities |
|  | (in millions)    |         |             |                   |          |             |
| Derivatives Designated as Hedge Accounting     |                  |         |             |                   |          |             |
| Instruments:                                   |                  |         |             |                   |          |             |
| Interest Rate                                  |                  |         |             |                   |          |             |
| Interest Rate Swaps                            | \$2,993          | \$190   | \$(75 )     | \$3,204           | \$271    | \$(88 )     |
| Foreign Currency                               |                  |         |             |                   |          |             |
| Foreign Currency Forwards                      | 595              | 0       | (17 )       | 545               | 0        | (8 )        |
| Currency/Interest Rate                         |                  |         |             |                   |          |             |
| Foreign Currency Swaps                         | 18,882           | 517     | (1,184 )    | 17,732            | 766      | (735 )      |
| Total Qualifying Hedges                        | \$22,470         | \$707   | \$(1,276 )  | \$21,481          | \$1,037  | \$(831 )    |
| Derivatives Not Qualifying as Hedge Accounting |                  |         |             |                   |          |             |
| Instruments:                                   |                  |         |             |                   |          |             |
| Interest Rate                                  |                  |         |             |                   |          |             |
| Interest Rate Swaps                            | \$155,142        | \$6,488 | \$(3,707 )  | \$158,552         | \$7,958  | \$(3,509 )  |
| Interest Rate Futures                          | 20,234           | 4       | 0           | 23,792            | 25       | (1 )        |
| Interest Rate Options                          | 21,724           | 171     | (245 )      | 18,456            | 167      | (203 )      |
| Interest Rate Forwards                         | 1,246            | 6       | 0           | 1,498             | 6        | (2 )        |
| Foreign Currency                               |                  |         |             |                   |          |             |
| Foreign Currency Forwards                      | 24,761           | 479     | (235 )      | 23,905            | 164      | (254 )      |
| Foreign Currency Options                       | 34               | 0       | 0           | 59                | 0        | 0           |
| Currency/Interest Rate                         |                  |         |             |                   |          |             |
| Foreign Currency Swaps                         | 13,830           | 486     | (653 )      | 13,777            | 822      | (414 )      |
| Credit   |                  |         |             |                   |          |             |
| Credit Default Swaps                           | 1,277            | 13      | (5 )        | 1,314             | 21       | (5 )        |
| Equity   |                  |         |             |                   |          |             |
| Equity Futures                                 | 140              | 0       | 0           | 710               | 2        | (2 )        |
| Equity Options                                 | 53,400           | 636     | (605 )      | 36,007            | 588      | (364 )      |
| Total Return Swaps                             | 22,336           | 609     | (196 )      | 15,558            | 17       | (369 )      |
| Commodity                                      |                  |         |             |                   |          |             |
| Commodity Futures                              | 12               | 0       | 0           | 0                 | 0        | 0           |
| Synthetic GICs                                 | 76,159           | 6       | 0           | 77,290            | 0        | (1 )        |
| Total Non-Qualifying Derivatives               | \$390,295        | \$8,898 | \$(5,646 )  | \$370,918         | \$9,770  | \$(5,124 )  |
| Total Derivatives(1)                           | \$412,765        | \$9,605 | \$(6,922 )  | \$392,399         | \$10,807 | \$(5,955 )  |

Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlying risks. (1) The fair value of these embedded derivatives was a net liability of \$7,031 million and \$8,748 million as of March 31, 2018 and December 31, 2017, respectively, primarily included in "Future policy benefits."

Most of the Company's derivatives do not qualify for hedge accounting for various reasons. For example: (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 GIC, which are product standalone derivatives, do not qualify as hedging instruments under hedge accounting rules.



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 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.

|  | March 31, 2018  |  |  |  |               |  |
|--|---|--|--|--|---------------|--|
|  | Gross<br>Amounts<br>of<br>Recognized<br>Financial<br>Instruments<br>(in millions) | Gross<br>Amounts<br>Offset in the<br>Statements<br>of<br>Financial<br>Position | Net<br>Amounts<br>Presented in<br>the Statements<br>of Financial<br>Position | Financial<br>Instruments/<br>Collateral(1) | Net<br>Amount |  |
| Offsetting of Financial Assets:                |   |  |  |  |               |  |
| Derivatives(1)                                 | \$9,537   | \$ (8,382 )  | \$ 1,155   | \$ (756 )                                  | \$ 399        |  |
| Securities purchased under agreement to resell | 1,388   | 0  | 1,388  | (1,388 )                                   | 0             |  |
| Total assets                                   | \$10,925  | \$ (8,382 )  | \$ 2,543   | \$ (2,144 )                                | \$ 399        |  |
| Offsetting of Financial Liabilities:           |   |  |  |  |               |  |
| Derivatives(1)                                 | \$6,913   | \$ (5,673 )  | \$ 1,240   | \$ (1,240 )                                | \$ 0          |  |
| Securities sold under agreement to repurchase  | 8,633   | 0  | 8,633  | (8,633 )                                   | 0             |  |
| Total liabilities                              | \$15,546  | \$ (5,673 )  | \$ 9,873   | \$ (9,873 )                                | \$ 0          |  |
| December 31, 2017                              |   |  |  |  |               |  |
|  | Gross<br>Amounts<br>of<br>Recognized<br>Financial<br>Instruments<br>(in millions) | Gross<br>Amounts<br>Offset in the<br>Statements<br>of<br>Financial<br>Position | Net<br>Amounts<br>Presented in<br>the Statements<br>of Financial<br>Position | Financial<br>Instruments/<br>Collateral(1) | Net<br>Amount |  |
| Offsetting of Financial Assets:                |   |  |  |  |               |  |
| Derivatives(1)                                 | \$10,710  | \$ (9,600 )  | \$ 1,110   | \$ (625 )                                  | \$ 485        |  |
| Securities purchased under agreement to resell | 240   | 0  | 240  | (240 )                                     | 0             |  |
| Total assets                                   | \$10,950  | \$ (9,600 )  | \$ 1,350   | \$ (865 )                                  | \$ 485        |  |
| Offsetting of Financial Liabilities:           |   |  |  |  |               |  |
| Derivatives(1)                                 | \$5,948   | \$ (5,312 )  | \$ 636   | \$ (588 )                                  | \$ 48         |  |
| Securities sold under agreement to repurchase  | 8,400   | 0  | 8,400  | (8,400 )                                   | 0             |  |
| Total liabilities                              | \$14,348  | \$ (5,312 )  | \$ 9,036   | \$ (8,988 )                                | \$ 48         |  |

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

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, 2017.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 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 March 31, 2018

|  | Realized<br>Investment<br>Gains<br>(Losses) | Net<br>Investment<br>Income | Other<br>Income | Interest<br>Expense | Interest<br>Credited To<br>Policyholders'<br>Account<br>Balances | AOCI(1) |
|--|---|-----------------------------|-----------------|---------------------|--|---------|
|--|---|-----------------------------|-----------------|---------------------|--|---------|

(in millions)

## Derivatives Designated as Hedge Accounting Instruments:

## Fair value hedges

|                         |      |         |      |      |          |      |
|-------------------------|------|---------|------|------|----------|------|
| Interest Rate           | \$17 | \$ (3 ) | \$ 0 | \$ 0 | \$ (83 ) | \$ 0 |
| Currency                | 2    | 0       | 0    | 0    | 0        | 0    |
| Total fair value hedges | 19   | (3 )    | 0    | 0    | (83 )    | 0    |

## Cash flow hedges

|                        |   |    |       |   |   |        |
|------------------------|---|----|-------|---|---|--------|
| Interest Rate          | 0 | 0  | 0     | 0 | 0 | 7      |
| Currency               | 0 | 0  | 0     | 0 | 0 | (8 )   |
| Currency/Interest Rate | 0 | 47 | (91 ) | 0 | 0 | (582 ) |
| Total cash flow hedges | 0 | 47 | (91 ) | 0 | 0 | (583 ) |

## Net investment hedges

|                             |      |   |   |   |   |      |
|-----------------------------|------|---|---|---|---|------|
| Currency                    | (2 ) | 0 | 0 | 0 | 0 | (2 ) |
| Currency/Interest Rate      | 0    | 0 | 0 | 0 | 0 | 0    |
| Total net investment hedges | (2 ) | 0 | 0 | 0 | 0 | (2 ) |

## Derivatives Not Qualifying as Hedge Accounting

## Instruments:

|                             |          |       |          |      |          |           |
|-----------------------------|----------|-------|----------|------|----------|-----------|
| Interest Rate               | (1,516 ) | 0     | 0        | 0    | 0        | 0         |
| Currency                    | 412      | 0     | 1        | 0    | 0        | 0         |
| Currency/Interest Rate      | (555 )   | 0     | (1 )     | 0    | 0        | 0         |
| Credit                      | (5 )     | 0     | 0        | 0    | 0        | 0         |
| Equity                      | 10       | 0     | 0        | 0    | 0        | 0         |
| Commodity                   | 0        | 0     | 0        | 0    | 0        | 0         |
| Embedded Derivatives        | 1,979    | 0     | 0        | 0    | 0        | 0         |
| Total non-qualifying hedges | 325      | 0     | 0        | 0    | 0        | 0         |
| Total                       | \$342    | \$ 44 | \$ (91 ) | \$ 0 | \$ (83 ) | \$ (585 ) |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | Three Months Ended March 31, 2017           |                             |                 |                     |  |           |
|--|---|-----------------------------|-----------------|---------------------|--|-----------|
|  | Realized<br>Investment<br>Gains<br>(Losses) | Net<br>Investment<br>Income | Other<br>Income | Interest<br>Expense | Interest<br>Credited To<br>Policyholders'<br>Account<br>Balances | AOCI(1)   |
|  | (in millions)                               |                             |                 |                     |  |           |
| Derivatives Designated as Hedge Accounting Instruments:        |   |                             |                 |                     |  |           |
| Fair value hedges  |   |                             |                 |                     |  |           |
| Interest Rate  | \$8   | \$ (6 )                     | \$ 0            | \$ 0                | \$ 0   | \$ 0      |
| Currency   | 2   | 0                           | 0               | 0                   | 0  | 0         |
| Total fair value hedges  | 10  | (6 )                        | 0               | 0                   | 0  | 0         |
| Cash flow hedges   |   |                             |                 |                     |  |           |
| Interest Rate  | 0   | 0                           | 0               | (1 )                | 0  | 3         |
| Currency/Interest Rate   | 0   | 44                          | (39 )           | 0                   | 0  | (201 )    |
| Total cash flow hedges   | 0   | 44                          | (39 )           | (1 )                | 0  | (198 )    |
| Net investment hedges  |   |                             |                 |                     |  |           |
| Currency   | 0   | 0                           | 0               | 0                   | 0  | (3 )      |
| Currency/Interest Rate   | 0   | 0                           | 0               | 0                   | 0  | 0         |
| Total net investment hedges                                    | 0   | 0                           | 0               | 0                   | 0  | (3 )      |
| Derivatives Not Qualifying as Hedge Accounting<br>Instruments: |   |                             |                 |                     |  |           |
| Interest Rate  | (14)  | 0                           | 0               | 0                   | 0  | 0         |
| Currency   | 38  | 0                           | (1 )            | 0                   | 0  | 0         |
| Currency/Interest Rate   | (87)  | 0                           | 0               | 0                   | 0  | 0         |
| Credit   | 10  | 0                           | 0               | 0                   | 0  | 0         |
| Equity   | (70)  | 0                           | 0               | 0                   | 0  | 0         |
| Commodity  | 0   | 0                           | 0               | 0                   | 0  | 0         |
| Embedded Derivatives   | 876   | 0                           | 0               | 0                   | 0  | 0         |
| Total non-qualifying hedges                                    | (14)  | 0                           | (1 )            | 0                   | 0  | 0         |
| Total  | \$ (4)                                      | \$ 38                       | \$ (40 )        | \$ (1 )             | \$ 0   | \$ (201 ) |

(1) Amounts deferred in AOCI.

For the three months ended March 31, 2018, the ineffective portion of derivatives accounted for using hedge accounting was \$13 million and for the three months ended March 31, 2017, the ineffective portion of derivatives accounted for using hedge accounting were de minimis 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, 2017 | \$ (39 )      |

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|  |         |   |
|--|---------|---|
| Net deferred gains/(losses) on cash flow hedges from January 1 to March 31, 2018 | (635    | ) |
| Amount reclassified into current period earnings                                 | 52      |   |
| Balance, March 31, 2018  | \$ (622 | ) |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The changes in fair value of cash flow hedges are deferred in AOCI and are included in “Net unrealized investment gains (losses)” in the Consolidated Statements of Comprehensive Income; these amounts are then reclassified to earnings when the hedged item affects earnings. Using March 31, 2018 values, it is estimated that a pre-tax gain of approximately \$157 million will be reclassified from AOCI to earnings during the subsequent twelve months ending March 31, 2019, offset by amounts pertaining to the hedged items.

The Company’s exposure from the qualifying cash flow hedges reflects variability of future cash flows in foreign currency amounts related to both the forecasted transactions and the receipt or payment of interest on existing financial instruments. As of March 31, 2018, the maximum length of time over which these cash flow hedges are outstanding were 5 years and 40 years respectively.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment account within AOCI were \$524 million and \$526 million as of March 31, 2018 and December 31, 2017, 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 \$114 million as of March 31, 2018 and December 31, 2017, respectively. These credit derivatives are reported at fair value as an asset of \$2 million as of both March 31, 2018 and December 31, 2017. As of March 31, 2018, the notional amount of these credit derivatives had the following NAIC ratings: \$37 million in NAIC 1; \$61 million in NAIC 2; \$5 million in NAIC 3; \$1 million in NAIC 4; \$1 million in NAIC 5; and \$5 million in NAIC 6. The Company has also written credit protection on certain index references with notional amounts of \$1,022 million as of both March 31, 2018 and December 31, 2017. These credit derivatives are reported at fair value as an asset of \$9 million and \$18 million as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, the notional amount of these credit derivatives had the following NAIC ratings: \$52 million in NAIC 1; and \$970 million in NAIC 3. 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 29 years. This excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance as further disclosed below.

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 March 31, 2018 and December 31, 2017, the Company had \$145 million and \$178 million of outstanding notional amounts reported at fair value as a liability of \$3 million and \$5 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 with a positive fair value. 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 agreements, as applicable; (ii) trading through a central clearing 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.

Substantially all of the Company's derivative agreements have zero thresholds which require daily full collateralization by the party in a liability position. In addition, certain of the Company's derivative agreements contain credit-risk related contingent features; if the credit rating of one of the parties to the derivative agreement is to fall below a certain level, the party with positive fair value could request termination at the then fair value or demand immediate full collateralization from the party whose credit rating fell and is in a net liability position.

As of March 31, 2018, there were no net liability derivative positions with counterparties with credit risk-related contingent features; as such, all derivatives have been appropriately collateralized by the Company or the counterparty in accordance with the terms of the derivative agreements.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

6. 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, 2017.

**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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | As of March 31, 2018 |           |          |            |           |
|--|----------------------|-----------|----------|------------|-----------|
|  | 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                  | \$24,962  | \$59     | \$         | \$25,021  |
| Obligations of U.S. states and their political subdivisions                          | 0                    | 10,290    | 5        |            | 10,295    |
| Foreign government bonds   | 0                    | 110,197   | 128      |            | 110,325   |
| U.S. corporate public securities   | 0                    | 85,718    | 108      |            | 85,826    |
| U.S. corporate private securities(2)   | 0                    | 31,413    | 1,830    |            | 33,243    |
| Foreign corporate public securities  | 0                    | 29,110    | 68       |            | 29,178    |
| Foreign corporate private securities   | 0                    | 23,914    | 729      |            | 24,643    |
| Asset-backed securities(3)   | 0                    | 6,063     | 6,754    |            | 12,817    |
| Commercial mortgage-backed securities  | 0                    | 12,820    | 43       |            | 12,863    |
| Residential mortgage-backed securities   | 0                    | 3,317     | 102      |            | 3,419     |
| Subtotal   | 0                    | 337,804   | 9,826    |            | 347,630   |
| Assets supporting experience-rated contractholder liabilities:                       |                      |           |          |            |           |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0                    | 199       | 0        |            | 199       |
| Obligations of U.S. states and their political subdivisions                          | 0                    | 201       | 0        |            | 201       |
| Foreign government bonds   | 0                    | 884       | 220      |            | 1,104     |
| Corporate securities   | 0                    | 13,159    | 468      |            | 13,627    |
| Asset-backed securities(3)   | 0                    | 762       | 664      |            | 1,426     |
| Commercial mortgage-backed securities  | 0                    | 2,369     | 0        |            | 2,369     |
| Residential mortgage-backed securities   | 0                    | 908       | 0        |            | 908       |
| Equity securities  | 1,390                | 257       | 5        |            | 1,652     |
| All other(5)   | 0                    | 16        | 7        |            | 23        |
| Subtotal   | 1,390                | 18,755    | 1,364    |            | 21,509    |
| Fixed maturities trading   | 0                    | 2,681     | 204      |            | 2,885     |
| Equity securities  | 5,865                | 639       | 785      |            | 7,289     |
| Commercial mortgage and other loans  | 0                    | 298       | 0        |            | 298       |
| Other invested assets(6)   | 4                    | 9,584     | 144      | (8,382)    | 1,350     |
| Short-term investments   | 2,693                | 1,590     | 10       |            | 4,293     |
| Cash equivalents   | 1,771                | 4,824     | 0        |            | 6,595     |
| Other assets   | 0                    | 3         | 0        |            | 3         |
| Separate account assets(7)(8)  | 43,896               | 228,810   | 2,360    |            | 275,066   |
| Total assets   | \$55,619             | \$604,988 | \$14,693 | \$(8,382)  | \$666,918 |
| Future policy benefits(9)  | \$0                  | \$0       | \$6,981  | \$         | \$6,981   |
| Other liabilities  | 5                    | 6,922     | 56       | (5,673)    | 1,310     |
| Notes issued by consolidated VIEs  | 0                    | 0         | 612      |            | 612       |
| Total liabilities  | \$5                  | \$6,922   | \$7,649  | \$(5,673)  | \$8,903   |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | As of December 31, 2017 |           |          |            | Total     |
|--|-------------------------|-----------|----------|------------|-----------|
|  | Level 1                 | Level 2   | Level 3  | Netting(1) |           |
|  | (in millions)           |           |          |            |           |
| Fixed maturities, available-for-sale:  |                         |           |          |            |           |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$0                     | \$26,086  | \$52     | \$         | \$26,138  |
| Obligations of U.S. states and their political subdivisions                          | 0                       | 10,466    | 5        |            | 10,471    |
| Foreign government bonds   | 0                       | 103,271   | 148      |            | 103,419   |
| U.S. corporate public securities   | 0                       | 90,115    | 109      |            | 90,224    |
| U.S. corporate private securities(2)   | 0                       | 31,845    | 1,889    |            | 33,734    |
| Foreign corporate public securities  | 0                       | 29,329    | 79       |            | 29,408    |
| Foreign corporate private securities   | 0                       | 23,528    | 699      |            | 24,227    |
| Asset-backed securities(3)   | 0                       | 5,629     | 6,604    |            | 12,233    |
| Commercial mortgage-backed securities  | 0                       | 13,268    | 13       |            | 13,281    |
| Residential mortgage-backed securities   | 0                       | 3,547     | 98       |            | 3,645     |
| Subtotal   | 0                       | 337,084   | 9,696    |            | 346,780   |
| Assets supporting experience-rated contractholder liabilities(4):                    |                         |           |          |            |           |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | 0                       | 201       | 0        |            | 201       |
| Obligations of U.S. states and their political subdivisions                          | 0                       | 208       | 0        |            | 208       |
| Foreign government bonds   | 0                       | 834       | 223      |            | 1,057     |
| Corporate securities   | 0                       | 13,611    | 462      |            | 14,073    |
| Asset-backed securities(3)   | 0                       | 670       | 722      |            | 1,392     |
| Commercial mortgage-backed securities  | 0                       | 2,311     | 0        |            | 2,311     |
| Residential mortgage-backed securities   | 0                       | 965       | 1        |            | 966       |
| Equity securities  | 1,381                   | 258       | 4        |            | 1,643     |
| All other(5)   | 25                      | 105       | 7        |            | 137       |
| Subtotal   | 1,406                   | 19,163    | 1,419    |            | 21,988    |
| Fixed maturities trading(4)  | 0                       | 3,351     | 156      |            | 3,507     |
| Equity securities(4)   | 5,978                   | 556       | 795      |            | 7,329     |
| Commercial mortgage and other loans  | 0                       | 593       | 0        |            | 593       |
| Other invested assets(4)(6)  | 32                      | 10,768    | 137      | (9,600)    | 1,337     |
| Short-term investments(4)  | 3,931                   | 1,850     | 8        |            | 5,789     |
| Cash equivalents(4)  | 1,900                   | 6,398     | 0        |            | 8,298     |
| Other assets   | 0                       | 1         | 13       |            | 14        |
| Separate account assets(7)(8)  | 45,397                  | 232,874   | 2,122    |            | 280,393   |
| Total assets   | \$58,644                | \$612,638 | \$14,346 | \$(9,600)  | \$676,028 |
| Future policy benefits(9)  | \$0                     | \$0       | \$8,720  | \$         | \$8,720   |
| Other liabilities  | 4                       | 5,946     | 50       | (5,312)    | 688       |
| Notes issued by consolidated VIEs  | 0                       | 0         | 1,196    |            | 1,196     |
| Total liabilities  | \$4                     | \$5,946   | \$9,966  | \$(5,312)  | \$10,604  |

“Netting” amounts represent cash collateral of \$2,709 million and \$4,288 million as of March 31, 2018 and (1)December 31, 2017, respectively, and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting arrangements.

(2)Excludes notes with both fair value and carrying amount of \$2,846 million and \$2,660 million, as of March 31, 2018 and December 31, 2017, 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) Prior period amounts have been reclassified to conform to current period presentation. See Note 2 for details.

(5) All other represents cash equivalents and short-term investments.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

(6) Other invested assets 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 March 31, 2018 and December 31, 2017, the fair values of such investments were \$4,297 million and \$1,969 million respectively.

(7) 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 include investments in real estate, hedge funds and other invested assets, for which fair value is measured at NAV per share (or its equivalent). At March 31, 2018 and December 31, 2017, the fair value of such investments was \$25,519 million and \$26,224 million, respectively.

(8) 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.

(9) As of March 31, 2018, the net embedded derivative liability position of \$6.9 billion includes \$1.1 billion of embedded derivatives in an asset position and \$8.0 billion of embedded derivatives in a liability position. As of December 31, 2017, the net embedded derivative liability position of \$8.7 billion includes \$0.9 billion of embedded derivatives in an asset position and \$9.6 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<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in<br>millions) |       |
|-------------------------------------|--|-------|
| Transferred from Level 1 to Level 2 | \$ 171   | \$ 46 |
| Transferred from Level 2 to Level 1 | \$ 7   | \$ 57 |

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 March 31, 2018

|               | Fair Value | Valuation Techniques | Unobservable Inputs | Minimum | Maximum | Weighted Average | Impact of Increase in Input on Fair Value(1) |
|---------------|------------|----------------------|---------------------|---------|---------|------------------|--|
| (in millions) |            |                      |                     |         |         |                  |  |
| Assets:       |            |                      |                     |         |         |                  |  |

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|  |         |                      |                         |                               |         |        |          |  |
|--|---------|----------------------|-------------------------|-------------------------------|---------|--------|----------|--|
| Corporate securities(2)                              | \$1,377 | Discounted cash flow | Discount rate           | 0.64%                         | -20%    | 7.41%  | Decrease |  |
|  |         | Market comparables   | EBITDA multiples(3)     | 4.5X                          | 7.6X    | 6.2X   | Increase |  |
|  |         | Liquidation          | Liquidation value       | 13.31%                        | -13.70% | 13.54% | Increase |  |
| Separate account assets-commercial mortgage loans(4) | \$798   | Discounted cash flow | Spread                  | 1.02%                         | -2.69%  | 1.15%  | Decrease |  |
| Liabilities:   |         |                      |                         |                               |         |        |          |  |
| Future policy benefits(5)                            | \$6,981 | Discounted cash flow | Lapse rate(6)           | 1%                            | -12%    |        | Decrease |  |
|  |         |                      | Spread over LIBOR(7)    | 0.24%                         | -1.21%  |        | Decrease |  |
|  |         |                      | Utilization rate(8)     | 52%                           | -97%    |        | Increase |  |
|  |         |                      | Withdrawal rate         | See table footnote (9) below. |         |        |          |  |
|  |         |                      | Mortality rate(10)      | 0%                            | -14%    |        | Decrease |  |
|  |         |                      | Equity volatility curve | 16%                           | -24%    |        | Increase |  |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| As of December 31, 2017                              |            |                      |                         |                               |         |                  | Impact of                          |
|--|------------|----------------------|-------------------------|-------------------------------|---------|------------------|------------------------------------|
|  | Fair Value | Valuation Techniques | Unobservable Inputs     | Minimum                       | Maximum | Weighted Average | Increase in Input on Fair Value(1) |
| (in millions)  |            |                      |                         |                               |         |                  |                                    |
| Assets:  |            |                      |                         |                               |         |                  |                                    |
| Corporate securities(2)                              | \$1,352    | Discounted cash flow | Discount rate           | 0.65%                         | -22%    | 7.20%            | Decrease                           |
|  |            | Market comparables   | EBITDA multiples(3)     | 7.4X                          | -7.4X   | 7.4X             | Increase                           |
|  |            | Liquidation          | Liquidation value       | 13.10%                        | -25.00% | 14.68%           | Increase                           |
| Separate account assets-commercial mortgage loans(4) | \$821      | Discounted cash flow | Spread                  | 1.08%                         | -2.78%  | 1.20%            | Decrease                           |
| Liabilities:   |            |                      |                         |                               |         |                  |                                    |
| Future policy benefits(5)                            | \$8,720    | Discounted cash flow | Lapse rate(6)           | 1%                            | -12%    |                  | Decrease                           |
|  |            |                      | Spread over LIBOR(7)    | 0.12%                         | -1.10%  |                  | 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                           |

(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, assets supporting experience-rated contractholder liabilities and fixed maturities trading.

(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 the London Inter-Bank Offered Rate (“LIBOR”) swap curve represents the premium added to the proxy for the risk-free rate (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 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.

- (9) 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 March 31, 2018 and December 31, 2017, 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%.

- (10) 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.

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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, 2017.

**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, 2017.

|  | Three Months Ended March 31, 2018 <sup>(1)</sup> |                            |                               |                                     |                                      |
|--|--|----------------------------|-------------------------------|-------------------------------------|--------------------------------------|
|  | Fixed Maturities Available-For-Sale              |                            |                               |                                     |                                      |
|  | U.S. government securities                       | U.S. government securities | Foreign government securities | Corporate securities <sup>(2)</sup> | Structured securities <sup>(3)</sup> |
|  | (in millions)                                    |                            |                               |                                     |                                      |
| Fair Value, beginning of period                                  | \$52   | \$ 5                       | \$ 148                        | \$ 2,776                            | \$ 6,715                             |
| Total gains (losses) (realized/unrealized):                      |  |                            |                               |                                     |                                      |
| Included in earnings:  |  |                            |                               |                                     |                                      |
| Realized investment gains (losses), net                          | 0  | 0                          | 0                             | (7                                  | ) 13                                 |
| Included in other comprehensive income (loss)                    | 0  | 0                          | 0                             | 16                                  | (30 )                                |
| Net investment income  | 0  | 0                          | 0                             | 2                                   | 2                                    |
| Purchases  | 7  | 0                          | 0                             | 118                                 | 1,548                                |
| Sales  | 0  | 0                          | 0                             | (1                                  | ) (66 )                              |
| Issuances  | 0  | 0                          | 0                             | 0                                   | 0                                    |
| Settlements  | 0  | 0                          | 0                             | (169                                | ) (649 )                             |
| Foreign currency translation                                     | 0  | 0                          | 1                             | 12                                  | 26                                   |
| Other <sup>(6)</sup>   | 0  | 0                          | 0                             | 0                                   | 4                                    |
| Transfers into Level 3 <sup>(7)</sup>                            | 0  | 0                          | 5                             | 60                                  | 1,071                                |
| Transfers out of Level 3 <sup>(7)</sup>                          | 0  | 0                          | (26                           | ) (72                               | ) (1,735 )                           |
| Fair Value, end of period  | \$59   | \$ 5                       | \$ 128                        | \$ 2,735                            | \$ 6,899                             |
| Unrealized gains (losses) for assets still held <sup>(8)</sup> : |  |                            |                               |                                     |                                      |
| Included in earnings:  |  |                            |                               |                                     |                                      |
| Realized investment gains (losses), net                          | \$0  | \$ 0                       | \$ 0                          | \$ (9                               | ) \$ 0                               |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | Three Months Ended March 31, 2018(1)                          |                         |                          |                   |                    |
|---|---|-------------------------|--------------------------|-------------------|--------------------|
|   | Assets Supporting Experience-Rated Contractholder Liabilities |                         |                          |                   |                    |
|   | Foreign government securities(2)                              | Corporate securities(2) | Structured securities(3) | Equity securities | All other activity |
|   | (in millions)   |                         |                          |                   |                    |
| Fair Value, beginning of period                     | \$223   | \$ 462                  | \$ 722                   | \$ 4              | \$ 7               |
| Total gains (losses) (realized/unrealized):         |   |                         |                          |                   |                    |
| Included in earnings:                               |   |                         |                          |                   |                    |
| Realized investment gains (losses), net             | 0   | 0                       | 0                        | 0                 | 0                  |
| Other income  | (4 )  | 1                       | 0                        | 1                 | 0                  |
| Net investment income                               | 1   | 0                       | 0                        | 0                 | 0                  |
| Purchases   | 0   | 24                      | 3                        | 0                 | 19                 |
| Sales   | 0   | 0                       | 0                        | 0                 | 0                  |
| Issuances   | 0   | 0                       | 0                        | 0                 | 0                  |
| Settlements   | 0   | (18 )                   | (13 )                    | 0                 | (19 )              |
| Foreign currency translation                        | 0   | 0                       | 0                        | 0                 | 0                  |
| Other(6)  | 0   | 0                       | 0                        | 0                 | 0                  |
| Transfers into Level 3(7)                           | 0   | 0                       | 28                       | 0                 | 0                  |
| Transfers out of Level 3(7)                         | 0   | (1 )                    | (76 )                    | 0                 | 0                  |
| Fair Value, end of period                           | \$220   | \$ 468                  | \$ 664                   | \$ 5              | \$ 7               |
| Unrealized gains (losses) for assets still held(8): |   |                         |                          |                   |                    |
| Included in earnings:                               |   |                         |                          |                   |                    |
| Realized investment gains (losses), net             | \$0   | \$ 0                    | \$ 0                     | \$ 0              | \$ 0               |
| Other income  | \$(4 )  | \$ 0                    | \$ 0                     | \$ 1              | \$ 0               |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | Three Months Ended March 31, 2018(1) |                      |                             |                           |                     |
|---|--------------------------------------|----------------------|-----------------------------|---------------------------|---------------------|
|   | Fixed<br>maturities<br>trading       | Equity<br>securities | Other<br>invested<br>assets | Short-term<br>investments | Cash<br>equivalents |
|   | (in millions)                        |                      |                             |                           |                     |
| Fair Value, beginning of period                     | \$156                                | \$795                | \$137                       | \$8                       | \$0                 |
| Total gains (losses) (realized/unrealized):         |                                      |                      |                             |                           |                     |
| Included in earnings:                               |                                      |                      |                             |                           |                     |
| Realized investment gains (losses), net             | 0                                    | 0                    | 8                           | (1)                       | 0                   |
| Other income  | (2)                                  | 14                   | 0                           | 0                         | 0                   |
| Included in other comprehensive income (loss)       | 0                                    | 0                    | 0                           | 0                         | 0                   |
| Net investment income                               | 0                                    | 0                    | 0                           | 0                         | 0                   |
| Purchases   | 40                                   | 7                    | 1                           | 14                        | 0                   |
| Sales   | (4)                                  | (17)                 | 0                           | 0                         | 0                   |
| Issuances   | 0                                    | 0                    | 0                           | 0                         | 0                   |
| Settlements   | 0                                    | (37)                 | 0                           | (12)                      | 0                   |
| Foreign currency translation                        | 5                                    | 21                   | 0                           | 1                         | 0                   |
| Other(6)  | 0                                    | 5                    | (2)                         | 0                         | 0                   |
| Transfers into Level 3(7)                           | 11                                   | 0                    | 0                           | 0                         | 0                   |
| Transfers out of Level 3(7)                         | (2)                                  | (3)                  | 0                           | 0                         | 0                   |
| Fair Value, end of period                           | \$204                                | \$785                | \$144                       | \$10                      | \$0                 |
| Unrealized gains (losses) for assets still held(8): |                                      |                      |                             |                           |                     |
| Included in earnings:                               |                                      |                      |                             |                           |                     |
| Realized investment gains (losses), net             | \$0                                  | \$0                  | \$1                         | \$(1)                     | \$0                 |
| Other income  | \$4                                  | \$13                 | \$0                         | \$0                       | \$0                 |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | Three Months Ended March 31, 2018(1) |                                  |                              |                      |  |
|---|--------------------------------------|----------------------------------|------------------------------|----------------------|--|
|   | Other<br>assets                      | Separate<br>account<br>assets(4) | Future<br>policy<br>benefits | Other<br>liabilities | Notes issued<br>by<br>consolidated<br>VIEs |
|   | (in millions)                        |                                  |                              |                      |  |
| Fair Value, beginning of period                                 | \$13                                 | \$2,122                          | \$(8,720)                    | \$(50)               | \$(1,196)                                  |
| Total gains (losses) (realized/unrealized):                     |                                      |                                  |                              |                      |  |
| Included in earnings:   |                                      |                                  |                              |                      |  |
| Realized investment gains (losses), net                         | (13)                                 | 0                                | 2,026                        | (19)                 | (3)  |
| Other Income  | 0                                    | 0                                | 0                            | 0                    | 0  |
| Interest credited to policyholders' account balances            | 0                                    | (33)                             | 0                            | 0                    | 0  |
| Net investment income   | 0                                    | 0                                | 0                            | 0                    | 0  |
| Purchases   | 0                                    | 237                              | 0                            | 10                   | 0  |
| Sales   | 0                                    | (8)                              | 0                            | 0                    | 0  |
| Issuances   | 0                                    | 0                                | (287)                        | 0                    | 0  |
| Settlements   | 0                                    | (121)                            | 0                            | 2                    | 0  |
| Foreign currency translation                                    | 0                                    | 0                                | 0                            | 0                    | 0  |
| Other(6)  | 0                                    | 0                                | 0                            | 1                    | 587  |
| Transfers into Level 3(7)                                       | 0                                    | 195                              | 0                            | 0                    | 0  |
| Transfers out of Level 3(7)                                     | 0                                    | (32)                             | 0                            | 0                    | 0  |
| Fair Value, end of period                                       | \$0                                  | \$2,360                          | \$(6,981)                    | \$(56)               | \$(612)                                    |
| Unrealized gains (losses) for assets/liabilities still held(8): |                                      |                                  |                              |                      |  |
| Included in earnings:   |                                      |                                  |                              |                      |  |
| Realized investment gains (losses), net                         | \$(13)                               | \$0                              | \$1,937                      | \$(13)               | \$(3)                                      |
| Other income  | \$0                                  | \$0                              | \$0                          | \$0                  | \$0  |
| Interest credited to policyholders' account balances            | \$0                                  | \$(26)                           | \$0                          | \$0                  | \$0  |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | Three Months Ended March 31, 2017   |                            |                               |                         |                          |   |
|---|-------------------------------------|----------------------------|-------------------------------|-------------------------|--------------------------|---|
|   | Fixed Maturities Available-For-Sale |                            |                               |                         |                          |   |
|   | U.S. government securities          | U.S. government securities | Foreign government securities | Corporate securities(2) | Structured securities(3) |   |
|   | (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                             | 44                      | 2                        |   |
| Included in other comprehensive income (loss)       | 0                                   | 0                          | 0                             | 13                      | 0                        |   |
| Net investment income                               | 0                                   | 0                          | 0                             | 9                       | 3                        |   |
| Purchases   | 0                                   | 0                          | 1                             | 34                      | 782                      |   |
| Sales   | 0                                   | 0                          | 0                             | (141                    | ) (10                    | ) |
| Issuances   | 0                                   | 0                          | 0                             | 0                       | 0                        |   |
| Settlements   | 0                                   | 0                          | 0                             | (59                     | ) (420                   | ) |
| Foreign currency translation                        | 0                                   | 0                          | 5                             | 9                       | 12                       |   |
| Other(6)  | 10                                  | 0                          | 0                             | (10                     | ) (1                     | ) |
| Transfers into Level 3(7)                           | 0                                   | 0                          | 7                             | 98                      | 1,647                    |   |
| Transfers out of Level 3(7)                         | 0                                   | 0                          | (1                            | ) (59                   | ) (659                   | ) |
| Fair Value, end of period                           | \$10                                | \$ 5                       | \$ 136                        | \$ 2,111                | \$ 5,911                 |   |
| Unrealized gains (losses) for assets still held(8): |                                     |                            |                               |                         |                          |   |
| Included in earnings:                               |                                     |                            |                               |                         |                          |   |
| Realized investment gains (losses), net             | \$0                                 | \$ 0                       | \$ 0                          | \$ (8                   | ) \$ 0                   |   |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | Three Months Ended March 31,<br>2017                                   |                            |                             |
|---|--|----------------------------|-----------------------------|
|   | Assets Supporting<br>Experience-Rated Contractholder<br>Liabilities(5) |                            |                             |
|   | Foreign<br>governmen<br>(in millions)                                  | Corporate<br>securities(2) | Structured<br>securities(3) |
| Fair Value, beginning of period                     | \$227  | \$ 154                     | \$ 290                      |
| Total gains (losses) (realized/unrealized):         |  |                            |                             |
| Included in earnings:                               |  |                            |                             |
| Realized investment gains (losses), net             | 0  | 0                          | 0                           |
| Other income  | (1 )   | 4                          | 0                           |
| Net investment income                               | 1  | 0                          | 0                           |
| Purchases   | 0  | 31                         | 190                         |
| Sales   | 0  | (2 )                       | 0                           |
| Issuances   | 0  | 0                          | 0                           |
| Settlements   | 0  | (30 )                      | (8 )                        |
| Foreign currency translation                        | 0  | 0                          | 0                           |
| Other(6)  | 0  | 0                          | 0                           |
| Transfers into Level 3(7)                           | 0  | 21                         | 233                         |
| Transfers out of Level 3(7)                         | 0  | (4 )                       | (29 )                       |
| Fair Value, end of period                           | \$227  | \$ 174                     | \$ 676                      |
| Unrealized gains (losses) for assets still held(8): |  |                            |                             |
| Included in earnings:                               |  |                            |                             |
| Realized investment gains (losses), net             | \$0  | \$ 0                       | \$ 0                        |
| Other income  | \$(1 )   | \$ 2                       | \$ 0                        |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | Three Months Ended March 31, 2017 |                         |                                    |                           |                     |
|---|-----------------------------------|-------------------------|------------------------------------|---------------------------|---------------------|
|   | Fixed<br>maturities<br>trading(5) | Equity<br>securities(5) | Other<br>invested<br>assets<br>(5) | Short-term<br>investments | Cash<br>equivalents |
|   | (in millions)                     |                         |                                    |                           |                     |
| Fair Value, beginning of period                                 | \$76                              | \$ 752                  | \$ 8                               | \$ 1                      | \$ 0                |
| Total gains (losses) (realized/unrealized):                     |                                   |                         |                                    |                           |                     |
| Included in earnings:   |                                   |                         |                                    |                           |                     |
| Realized investment gains (losses), net                         | 0                                 | 0                       | 0                                  | 0                         | 0                   |
| Other income  | (1 )                              | 21                      | 0                                  | 0                         | 0                   |
| Included in other comprehensive income (loss)                   | 0                                 | 11                      | 0                                  | 0                         | 0                   |
| Net investment income   | 0                                 | 0                       | 0                                  | 0                         | 2                   |
| Purchases   | 15                                | 22                      | 0                                  | 0                         | 0                   |
| Sales   | (1 )                              | (28 )                   | 0                                  | 0                         | 0                   |
| Issuances   | 0                                 | 0                       | 0                                  | 0                         | 0                   |
| Settlements   | (10 )                             | (6 )                    | 0                                  | 0                         | 0                   |
| Foreign currency translation                                    | 1                                 | 9                       | 0                                  | 0                         | 0                   |
| Other(6)  | 1                                 | 0                       | 71                                 | 0                         | 4                   |
| Transfers into Level 3(7)                                       | 26                                | 31                      | 0                                  | 0                         | 0                   |
| Transfers out of Level 3(7)                                     | (1 )                              | (1 )                    | 0                                  | 0                         | 0                   |
| Fair Value, end of period                                       | \$106                             | \$ 811                  | \$ 79                              | \$ 1                      | \$ 6                |
| Unrealized gains (losses) for assets/liabilities still held(8): |                                   |                         |                                    |                           |                     |
| Included in earnings:   |                                   |                         |                                    |                           |                     |
| Realized investment gains (losses), net                         | \$0                               | \$ 0                    | \$ (4 )                            | \$ 0                      | 0                   |
| Other income  | \$(1 )                            | \$ 21                   | \$ 0                               | \$ 0                      | 0                   |



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | Three Months Ended March 31, 2017 |                                  |                              |                      |  |
|---|-----------------------------------|----------------------------------|------------------------------|----------------------|--|
|   | Other<br>assets                   | Separate<br>account<br>assets(4) | Future<br>policy<br>benefits | Other<br>liabilities | Notes issued<br>by<br>consolidated<br>VIEs |
|   | (in millions)                     |                                  |                              |                      |  |
| Fair Value, beginning of period                                 | \$0                               | \$1,849                          | \$(8,238)                    | \$ (22 )             | \$ (1,839 )                                |
| Total gains (losses) (realized/unrealized):                     |                                   |                                  |                              |                      |  |
| Included in earnings:   |                                   |                                  |                              |                      |  |
| Realized investment gains (losses), net                         | (8 )                              | 0                                | 875                          | (6 )                 | (15 )                                      |
| Other Income  | 0                                 | 0                                | 0                            | 0                    | 0  |
| Interest credited to policyholders' account balances            | 0                                 | 24                               | 0                            | 0                    | 0  |
| Net investment income   | 0                                 | 0                                | 0                            | 0                    | 0  |
| Purchases   | 8                                 | 155                              | 0                            | 0                    | 0  |
| Sales   | 0                                 | (4 )                             | 0                            | 0                    | 0  |
| Issuances   | 0                                 | 0                                | (275 )                       | 0                    | 0  |
| Settlements   | 0                                 | (206 )                           | 0                            | 1                    | 0  |
| Foreign currency translation                                    | 0                                 | 0                                | (2 )                         | 0                    | 0  |
| Other(6)  | 0                                 | 0                                | 0                            | 0                    | 0  |
| Transfers into Level 3(7)                                       | 0                                 | 191                              | 0                            | 0                    | 0  |
| Transfers out of Level 3(7)                                     | 0                                 | (34 )                            | 0                            | 0                    | 0  |
| Fair Value, end of period                                       | \$0                               | \$1,975                          | \$(7,640)                    | \$ (27 )             | \$ (1,854 )                                |
| Unrealized gains (losses) for assets/liabilities still held(8): |                                   |                                  |                              |                      |  |
| Included in earnings:   |                                   |                                  |                              |                      |  |
| Realized investment gains (losses), net                         | \$(8)                             | \$0                              | \$813                        | \$ (6 )              | \$(15 )                                    |
| Other Income  | \$0                               | \$0                              | \$0                          | \$0                  | \$0  |
| Interest credited to policyholders' account balances            | \$0                               | \$23                             | \$0                          | \$0                  | \$0  |

(1) Current period amounts include one additional month of activity related to the elimination of Gibraltar Life's reporting lag.

(2) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities. Prior period amounts were aggregated to conform to current period presentation.

(3) Includes asset-backed, commercial mortgage-backed and residential mortgage-backed securities. Prior period amounts were aggregated to conform to current period presentation.

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.

(5) Prior period amounts have been reclassified to conform to current period presentation. See Note 2 for details.

Other, for the period ended March 31, 2018, primarily represents deconsolidation of a VIE and reclassifications of certain assets between reporting categories. Other, for the period ended March 31, 2017, primarily represents consolidations of VIE and reclassifications of certain assets between reporting categories.

(7) 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.

(8) 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 risk. These tables include NPR and exclude embedded derivatives and associated reinsurance recoverables. The derivative assets and liabilities shown below are included in “Other invested assets” 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|                              | As of March 31, 2018 |         |         |                    |
|------------------------------|----------------------|---------|---------|--------------------|
|                              | Level 1              | Level 2 | Level 3 | Netting(1) Total   |
|                              | (in millions)        |         |         |                    |
| Derivative Assets:           |                      |         |         |                    |
| Interest Rate                | \$4                  | \$6,849 | \$7     | \$6,860            |
| Currency                     | 0                    | 480     | 0       | 480                |
| Credit                       | 0                    | 13      | 0       | 13                 |
| Currency/Interest Rate       | 0                    | 1,003   | 0       | 1,003              |
| Equity                       | 0                    | 1,239   | 6       | 1,245              |
| Commodity                    | 0                    | 0       | 0       | 0                  |
| Netting(1)                   |                      |         |         | (8,382 ) (8,382 )  |
| Total derivative assets      | \$4                  | \$9,584 | \$13    | \$(8,382 ) \$1,219 |
| Derivative Liabilities:      |                      |         |         |                    |
| Interest Rate                | \$0                  | \$4,024 | \$1     | \$4,025            |
| Currency                     | 0                    | 253     | 0       | 253                |
| Credit                       | 0                    | 5       | 0       | 5                  |
| Currency/Interest Rate       | 0                    | 1,837   | 0       | 1,837              |
| Equity                       | 0                    | 802     | 0       | 802                |
| Commodity                    | 0                    | 0       | 0       | 0                  |
| Netting(1)                   |                      |         |         | (5,673 ) (5,673 )  |
| Total derivative liabilities | \$0                  | \$6,921 | \$1     | \$(5,673 ) \$1,249 |

|                              | As of December 31, 2017 |          |         |                    |
|------------------------------|-------------------------|----------|---------|--------------------|
|                              | Level 1                 | Level 2  | Level 3 | Netting(1) Total   |
|                              | (in millions)           |          |         |                    |
| Derivative Assets:           |                         |          |         |                    |
| Interest Rate                | \$25                    | \$8,399  | \$0     | \$8,424            |
| Currency                     | 0                       | 165      | 0       | 165                |
| Credit                       | 0                       | 21       | 0       | 21                 |
| Currency/Interest Rate       | 0                       | 1,588    | 0       | 1,588              |
| Equity                       | 2                       | 595      | 10      | 607                |
| Commodity                    | 0                       | 0        | 0       | 0                  |
| Netting(1)                   |                         |          |         | (9,600 ) (9,600 )  |
| Total derivative assets      | \$27                    | \$10,768 | \$10    | \$(9,600 ) \$1,205 |
| Derivative Liabilities:      |                         |          |         |                    |
| Interest Rate                | \$1                     | \$3,800  | \$3     | \$3,804            |
| Currency                     | 0                       | 262      | 0       | 262                |
| Credit                       | 0                       | 5        | 0       | 5                  |
| Currency/Interest Rate       | 0                       | 1,149    | 0       | 1,149              |
| Equity                       | 2                       | 733      | 0       | 735                |
| Commodity                    | 0                       | 0        | 0       | 0                  |
| Netting(1)                   |                         |          |         | (5,312 ) (5,312 )  |
| Total derivative liabilities | \$3                     | \$5,949  | \$3     | \$(5,312 ) \$643   |

(1) “Netting” amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting agreement.

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 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | Three Months<br>Ended<br>March 31, 2018 |  |
|--|---|--|
|  | Net<br>Derivative-<br>Equity            | Net<br>Derivative-<br>Interest<br>Rate |
|  | (in millions)                           |  |
| Fair Value, beginning of period                  | \$ 10                                   | \$ (3 )                                |
| Total gains (losses) (realized/unrealized):      |   |  |
| Included in earnings:                            |   |  |
| Realized investment gains (losses), net          | 0                                       | 9                                      |
| Other income                                     | 0                                       | 0                                      |
| Purchases  | 0                                       | 0                                      |
| Sales  | 0                                       | 0                                      |
| Issuances  | 0                                       | 0                                      |
| Settlements                                      | 0                                       | 0                                      |
| Foreign currency translation                     | 0                                       | 0                                      |
| Other(1)   | (5 )                                    | 0                                      |
| Transfers into Level 3(2)                        | 1                                       | 0                                      |
| Transfers out of Level 3(2)                      | 0                                       | 0                                      |
| Fair Value, end of period                        | \$ 6                                    | \$ 6                                   |
| Unrealized gains (losses) for assets still held: |   |  |
| Included in earnings:                            |   |  |
| Realized investment gains (losses), net          | \$ 1                                    | \$ 8                                   |
| Other income                                     | \$ 0                                    | \$ 0                                   |

|   | Three Months<br>Ended<br>March 31, 2017 |  |
|---|---|--|
|   | Net<br>Derivative-<br>Equity            | Net<br>Derivative-<br>Interest<br>Rate |
|   | (in millions)                           |  |
| Fair Value, beginning of period             | \$ 0                                    | \$ 4                                   |
| Total gains (losses) (realized/unrealized): |   |  |
| Included in earnings:                       |   |  |
| Realized investment gains (losses), net     | 0                                       | (1 )                                   |
| Other income                                | 0                                       | 0                                      |
| Purchases                                   | 0                                       | 0                                      |
| Sales                                       | 0                                       | 0                                      |
| Issuances                                   | 0                                       | 0                                      |
| Settlements                                 | 0                                       | 0                                      |
| Other                                       | 0                                       | 0                                      |
| Transfers into Level 3(2)                   | 0                                       | 0                                      |
| Transfers out of Level 3(2)                 | 0                                       | 0                                      |

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|   |      |         |
|---|------|---------|
| Fair Value, end of period   | \$ 0 | \$ 3    |
| Unrealized gains (losses) for assets still held:<br>Included in earnings: |      |         |
| Realized investment gains (losses), net                                   | \$ 0 | \$ (1 ) |
| Other income  | \$ 0 | \$ 0    |

(1) Represents conversion of warrants to equity shares.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (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 an evidence of impairment. Assets included in the table are those that were impaired 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<br>Months<br>Ended<br>March<br>31,<br>2018 | 2017   |
|---|--|--------|
|   | (in<br>millions)                                 |        |
| Realized investment gains (losses) net: |  |        |
| Commercial mortgage loans(1)            | \$0  | \$0    |
| Mortgage servicing rights(2)            | \$2  | \$2    |
| Cost method investments(3)              | \$0  | \$(10) |

  

|  | March<br>31,<br>2018 | December<br>31, 2017 |
|--|----------------------|----------------------|
|  | (in millions)        |                      |
| Carrying value after measurement as of period end: |                      |                      |
| Commercial mortgage loans(1)                       | \$63                 | \$ 64                |
| Mortgage servicing rights(2)                       | \$62                 | \$ 60                |
| Cost method investments(3)                         | \$0                  | \$ 150               |

- (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) Due to the adoption of ASU 2016-01 effective January 1, 2018, LPs/LLCs (formerly accounted for under the cost method) are carried at fair value at each reporting date with changes in fair value reported in “Other income”.
- (3) Therefore, these assets are no longer reported in this table because they are no longer carried at fair value on a non-recurring basis.

**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 result 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 invested assets 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.



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  |  |      |
|--|--|------|
|  | Three<br>Months<br>Ended<br>March<br>31,<br>2018 | 2017 |
|  | (in<br>millions)                                 |      |

Assets:

Other invested assets (2):

|                       |      |       |
|-----------------------|------|-------|
| Changes in fair value | \$ 0 | \$ 54 |
|-----------------------|------|-------|

Liabilities:

Notes issued by consolidated VIEs:

|                       |      |       |
|-----------------------|------|-------|
| Changes in fair value | \$ 3 | \$ 15 |
|-----------------------|------|-------|

|  |      |
|--|------|
| Three<br>Months<br>Ended<br>March<br>31,<br>2018 | 2017 |
| (in<br>millions)                                 |      |

Commercial mortgage and other loans:

|                 |      |      |
|-----------------|------|------|
| Interest income | \$ 2 | \$ 2 |
|-----------------|------|------|

Notes issued by consolidated VIEs:

|                  |      |       |
|------------------|------|-------|
| Interest expense | \$ 9 | \$ 22 |
|------------------|------|-------|

|               |              |
|---------------|--------------|
| March         | December 31, |
| 2018          | 2017         |
| (in millions) |              |

Commercial mortgage and other loans(1):

|                             |        |        |
|-----------------------------|--------|--------|
| Fair value as of period end | \$ 298 | \$ 593 |
|-----------------------------|--------|--------|

|  |        |        |
|--|--------|--------|
| Aggregate contractual principal as of period end | \$ 292 | \$ 582 |
|--|--------|--------|

Other invested assets (2):

|                             |      |          |
|-----------------------------|------|----------|
| Fair value as of period end | \$ 0 | \$ 1,945 |
|-----------------------------|------|----------|

Notes issued by consolidated VIEs:

|                             |        |          |
|-----------------------------|--------|----------|
| Fair value as of period end | \$ 612 | \$ 1,196 |
|-----------------------------|--------|----------|

|  |        |          |
|--|--------|----------|
| Aggregate contractual principal as of period end | \$ 632 | \$ 1,233 |
|--|--------|----------|

(1) As of March 31, 2018, 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.

(2) LPs/LLCs are reported at fair value due to adoption of ASU 2016-01, which in prior period were reported at fair value option. See Note 2 for details.

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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | March 31, 2018(1)           |           |          |           | Carrying<br>Amount(2) |
|--|-----------------------------|-----------|----------|-----------|-----------------------|
|  | Fair Value                  |           |          |           |                       |
|  | Level<br>1<br>(in millions) | Level 2   | Level 3  | Total     | Total                 |
| Assets:  |                             |           |          |           |                       |
| Fixed maturities, held-to-maturity(3)                          | \$0                         | \$1,551   | \$960    | \$2,511   | \$ 2,120              |
| Assets supporting experience-rated contractholders liabilities | 98                          | 30        | 0        | 128       | 128                   |
| Commercial mortgage and other loans                            | 0                           | 134       | 58,199   | 58,333    | 57,800                |
| Policy loans   | 1                           | 0         | 12,035   | 12,036    | 12,036                |
| Other invested assets  | 0                           | 57        | 0        | 57        | 57                    |
| Short-term investments   | 1,433                       | 26        | 0        | 1,459     | 1,459                 |
| Cash and cash equivalents                                      | 7,742                       | 1,339     | 0        | 9,081     | 9,081                 |
| Accrued investment income                                      | 0                           | 3,169     | 0        | 3,169     | 3,169                 |
| Other assets   | 81                          | 2,498     | 665      | 3,244     | 3,244                 |
| Total assets   | \$9,355                     | \$8,804   | \$71,859 | \$90,018  | \$ 89,094             |
| Liabilities:   |                             |           |          |           |                       |
| Policyholders' account balances—investment contracts           | \$0                         | \$32,936  | \$66,895 | \$99,831  | \$ 100,486            |
| Securities sold under agreements to repurchase                 | 0                           | 8,633     | 0        | 8,633     | 8,633                 |
| Cash collateral for loaned securities                          | 0                           | 4,312     | 0        | 4,312     | 4,312                 |
| Short-term debt  | 0                           | 1,353     | 32       | 1,385     | 1,383                 |
| Long-term debt(5)  | 1,294                       | 16,667    | 1,976    | 19,937    | 18,143                |
| Notes issued by consolidated VIEs                              | 0                           | 0         | 342      | 342       | 342                   |
| Other liabilities  | 0                           | 6,226     | 694      | 6,920     | 6,920                 |
| Separate account liabilities—investment contracts              | 0                           | 69,950    | 29,363   | 99,313    | 99,313                |
| Total liabilities  | \$1,294                     | \$140,077 | \$99,302 | \$240,673 | \$ 239,532            |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | December 31, 2017(1)        |                  |                  |                  | Carrying<br>Amount(2) |
|---|-----------------------------|------------------|------------------|------------------|-----------------------|
|   | Fair Value                  |                  |                  |                  |                       |
|   | Level<br>1<br>(in millions) | Level 2          | Level 3          | Total            |                       |
| <b>Assets:</b>  |                             |                  |                  |                  |                       |
| Fixed maturities, held-to-maturity(3)                             | \$0                         | \$1,484          | \$946            | \$2,430          | \$2,049               |
| Assets supporting experience-rated contractholders liabilities(4) | 58                          | 51               | 0                | 109              | 109                   |
| Commercial mortgage and other loans                               | 0                           | 129              | 56,619           | 56,748           | 55,452                |
| Policy loans  | 1                           | 0                | 11,890           | 11,891           | 11,891                |
| Short-term investments  | 989                         | 22               | 0                | 1,011            | 1,011                 |
| Cash and cash equivalents   | 5,997                       | 195              | 0                | 6,192            | 6,192                 |
| Accrued investment income   | 0                           | 3,325            | 0                | 3,325            | 3,325                 |
| Other assets  | 45                          | 2,385            | 685              | 3,115            | 3,115                 |
| <b>Total assets</b>   | <b>\$7,090</b>              | <b>\$7,591</b>   | <b>\$70,140</b>  | <b>\$84,821</b>  | <b>\$83,144</b>       |
| <b>Liabilities:</b>   |                             |                  |                  |                  |                       |
| Policyholders' account balances—investment contracts              | \$0                         | \$33,045         | \$67,141         | \$100,186        | \$99,948              |
| Securities sold under agreements to repurchase                    | 0                           | 8,400            | 0                | 8,400            | 8,400                 |
| Cash collateral for loaned securities                             | 0                           | 4,354            | 0                | 4,354            | 4,354                 |
| Short-term debt   | 0                           | 1,384            | 0                | 1,384            | 1,380                 |
| Long-term debt(5)   | 1,296                       | 16,369           | 2,095            | 19,760           | 17,172                |
| Notes issued by consolidated VIEs                                 | 0                           | 0                | 322              | 322              | 322                   |
| Other liabilities   | 0                           | 6,002            | 715              | 6,717            | 6,717                 |
| Separate account liabilities—investment contracts                 | 0                           | 71,336           | 30,490           | 101,826          | 101,826               |
| <b>Total liabilities</b>  | <b>\$1,296</b>              | <b>\$140,890</b> | <b>\$100,763</b> | <b>\$242,949</b> | <b>\$240,119</b>      |

(1) The information presented as of December 31, 2017, excludes certain hedge funds, private equity funds and other funds that were accounted for using the cost method and for which the fair value was measured at NAV per share (or its equivalent) as a practical expedient. The fair value and the carrying value of these cost method investments were \$1,795 million and \$1,571 million, respectively. Due to the adoption of ASU 2016-01 effective January 1, 2018, these assets are carried at fair value at each reporting date with changes in fair value reported in "Other income." Therefore, as of March 31, 2018, these assets are excluded from this table but are reported in the fair value recurring measurement table.

(2) 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 are out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments.

(3) As of March 31, 2018, excludes notes with fair value and carrying amount of \$4,812 million and \$4,753 million, respectively. As of December 31, 2017, excludes notes with fair value and carrying amount of \$4,913 million and \$4,627 million, respectively. These amounts have been offset with the associated payables under a netting agreement.

(4) Prior period amounts have been reclassified to conform to current period presentation. See Note 2 for details.

(5) As of March 31, 2018, includes notes with fair value and carrying amount of \$7,658 million and \$7,599 million, respectively. As of December 31, 2017, includes notes with fair value and carrying amount of \$7,577 million and \$7,287 million, respectively. These amounts have been offset with the associated receivables under a netting agreement.

## 7. 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, 2017.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of March 31, 2018 and December 31, 2017, the Company recognized a policyholder dividend obligation of \$2,621 million and \$1,790 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 \$1,812 million and \$3,656 million at March 31, 2018 and December 31, 2017, 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:

|  | March 31, December 31,<br>2018      2017<br>(in millions) |           |
|--|---|-----------|
| Closed Block liabilities   |   |           |
| Future policy benefits   | \$48,631  | \$ 48,870 |
| Policyholders' dividends payable   | 860   | 829       |
| Policyholders' dividend obligation   | 4,433   | 5,446     |
| Policyholders' account balances  | 5,120   | 5,146     |
| Other Closed Block liabilities   | 5,165   | 5,070     |
| Total Closed Block liabilities   | 64,209  | 65,361    |
| Closed Block assets  |   |           |
| Fixed maturities, available-for-sale, at fair value                                    | 39,858  | 41,043    |
| Fixed maturities, trading, at fair value(1)  | 205   | 339       |
| Equity securities, at fair value(1)  | 2,309   | 2,340     |
| Commercial mortgage and other loans  | 9,027   | 9,017     |
| Policy loans   | 4,495   | 4,543     |
| Other invested assets(1)   | 3,407   | 3,159     |
| Short-term investments   | 413   | 632       |
| Total investments  | 59,714  | 61,073    |
| Cash and cash equivalents  | 1,020   | 789       |
| Accrued investment income  | 491   | 474       |
| Other Closed Block assets  | 222   | 249       |
| Total Closed Block assets  | 61,447  | 62,585    |
| Excess of reported Closed Block liabilities over Closed Block assets                   | 2,762   | 2,776     |
| Portion of above representing accumulated other comprehensive income:                  |   |           |
| Net unrealized investment gains (losses)   | 1,777   | 3,627     |
| Allocated to policyholder dividend obligation  | (1,812 )  | (3,656 )  |
| Future earnings to be recognized from Closed Block assets and Closed Block liabilities | \$2,727   | \$ 2,747  |

(1) Prior period amounts have been reclassified to conform to current period presentation. See Note 2 for details.

Information regarding the policyholder dividend obligation is as follows:

Three  
Months  
Ended  
March  
31, 2018

|  | (in<br>millions) |
|--|------------------|
| Balance, December 31, 2017   | \$ 5,446         |
| Cumulative-effect adjustment from the adoption of ASU 2016-01(1)                                 | 157              |
| Impact from earnings allocable to policyholder dividend obligation                               | (139 )           |
| Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation | (1,031 )         |
| Balance, March 31, 2018  | \$ 4,433         |

(1) See Note 2 for details.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

|   | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |       |
|---|---|-------|
| Revenues  |   |       |
| Premiums  | \$551   | \$605 |
| Net investment income   | 597   | 650   |
| Realized investment gains (losses), net   | (2 )  | 273   |
| Other income (loss)   | 21  | 34    |
| Total Closed Block revenues   | 1,167   | 1,562 |
| Benefits and Expenses   |   |       |
| Policyholders' benefits   | 727   | 789   |
| Interest credited to policyholders' account balances                                  | 33  | 33    |
| Dividends to policyholders  | 308   | 593   |
| General and administrative expenses   | 93  | 97    |
| Total Closed Block benefits and expenses  | 1,161   | 1,512 |
| Closed Block revenues, net of Closed Block benefits and expenses, before income taxes | 6   | 50    |
| Income tax expense (benefit)  | (9 )  | 37    |
| Closed Block revenues, net of Closed Block benefits and expenses and income taxes     | \$15  | \$13  |

**8. 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 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 \$352 million, or 20.8% of income (loss) before income taxes and equity in earnings of operating joint ventures, in the first three months of 2018, compared to \$395 million, or 22.7%, in the first three months of 2017. The Company's current effective tax rates differed from the U.S. statutory rate of 21% primarily due to non-taxable investment income, tax credits and foreign earnings taxed at higher rates than the U.S. statutory rate. The Company's prior effective tax rates differed from the U.S. statutory rate in effect at that time of 35% primarily due to non-taxable investment income, tax credits and foreign earnings taxed at lower rates than the U.S. statutory rate.

U.S. Tax Cuts and Jobs Act of 2017 ("Tax Act of 2017"). On December 22, 2017, the Tax Act of 2017 was enacted into U.S. law. As a result, the Company recognized a \$2,880 million tax benefit in "Total income tax expense (benefit)" in the Company's Consolidated Statements of Operations for the year ended December 31, 2017. In accordance with SEC Staff Accounting Bulletin 118, the Company recorded the effects of the Tax Act of 2017 as reasonable estimates due to the need for further analysis of the provisions within the Tax Act of 2017 and collection, preparation and analysis of relevant data necessary to complete the accounting. The Company has not fully completed its accounting for the tax effects of the Tax Act of 2017. As the Company completes the collection, preparation and analysis of data relevant to



the Tax Act of 2017, and interprets any additional guidance issued by the Internal Revenue Service (“IRS”), U.S. Department of the Treasury, or other standard-setting organizations, the Company may make adjustments to these provisional amounts. These adjustments may materially impact the Company’s provision for income taxes in the period in which the adjustments are made. During the first quarter of 2018, the Company recognized additional refinements of our provisional estimates.

The cumulative financial statement impact related to the Tax Act of 2017 as of March 31, 2018 was as follows:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | Twelve<br>Months<br>Ended<br>December<br>31, 2017 | Three<br>Months<br>Ended<br>March<br>31,<br>2018 | Total     |
|--|---|--|-----------|
|  | (in millions)                                     |  |           |
| Deferred tax revaluation from 35% to 21%         | \$(1,592)   | \$ 4   | \$(1,588) |
| Adoption of modified territorial system          | (1,785 )  | (24 )  | (1,809 )  |
| Deemed repatriation                              | 497   | 0  | 497       |
| Total provision for income tax expense (benefit) | \$(2,880)   | \$ (20 )   | \$(2,900) |

## 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:

|  | March<br>31, 2018 | December<br>31, 2017 |
|--|-------------------|----------------------|
|  | (\$ in millions)  |                      |
| Commercial paper:  |                   |                      |
| Prudential Financial   | \$25              | \$50                 |
| Prudential Funding, LLC  | 496               | 500                  |
| Subtotal commercial paper  | 521               | 550                  |
| Current portion of long-term debt(1)                               | 862               | 830                  |
| Total short-term debt(2)   | \$1,383           | \$1,380              |
| Supplemental short-term debt information:                          |                   |                      |
| Portion of commercial paper borrowings due overnight               | \$85              | \$277                |
| Daily average commercial paper outstanding                         | \$1,179           | \$1,110              |
| Weighted average maturity of outstanding commercial paper, in days | 20                | 22                   |
| Weighted average interest rate on outstanding short-term debt(3)   | 1.47 %            | 0.99 %               |

(1) Includes \$32 million that has recourse only to real estate investment property at March 31, 2018.

(2) Includes Prudential Financial debt of \$855 million and \$880 million at March 31, 2018 and December 31, 2017, 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 March 31, 2018, 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, 2017.

## Long-term Debt

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | March<br>31,<br>2018 | December<br>31, 2017 |
|--|----------------------|----------------------|
|  | (in millions)        |                      |
| Fixed-rate notes:                                |                      |                      |
| Surplus notes                                    | \$ 841               | \$ 840               |
| Surplus notes subject to set-off arrangements(1) | 5,499                | 5,187                |
| Senior notes                                     | 9,876                | 8,882                |
| Mortgage debt(2)                                 | 244                  | 226                  |
| Floating-rate notes:                             |                      |                      |
| Surplus notes                                    | 0                    | 0                    |
| Surplus notes subject to set-off arrangements(1) | 2,100                | 2,100                |
| Senior notes                                     | 29                   | 29                   |
| Mortgage debt(3)                                 | 526                  | 573                  |
| Junior subordinated notes(4)                     | 6,627                | 6,622                |
| Subtotal   | 25,742               | 24,459               |
| Less: assets under set-off arrangements(1)       | 7,599                | 7,287                |
| Total long-term debt(5)                          | \$18,143             | \$ 17,172            |

(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 \$109 million and \$107 million of debt denominated in foreign currency at March 31, 2018 and December 31, 2017, respectively.

(3) Includes \$222 million and \$245 million of debt denominated in foreign currency at March 31, 2018 and December 31, 2017, respectively.

(4) Includes Prudential Financial debt of \$6,568 million and subsidiary debt of \$59 million denominated in foreign currency at March 31, 2018.

(5) Includes Prudential Financial debt of \$16,301 million and \$15,304 million at March 31, 2018 and December 31, 2017, respectively.

At March 31, 2018 and December 31, 2017, the Company was in compliance with all debt covenants related to the borrowings in the table above.

**Surplus Notes**

During the first quarter of 2018, the Company established a new \$1.6 billion captive financing facility to finance non-economic reserves required under Guideline XXX. 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 March 31, 2018, \$100 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.

**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 March 31, 2018, the outstanding balance of the Company's medium-term notes was \$8.7 billion, an increase of \$1 billion from December 31, 2017. The increase was due to the issuance of \$600 million of notes with an interest rate of 3.878% maturing in March 2028 and \$400 million of notes with an interest rate of 4.418% maturing in March 2048.

Mortgage Debt. As of March 31, 2018, the Company's subsidiaries had mortgage debt of \$802 million that has recourse only to real estate property held for investment by those subsidiaries. This represents an increase of \$3 million from December 31, 2017, due to new borrowings of \$23 million and \$7 million from foreign currency exchange rate fluctuations, partially offset by \$27 million of prepayment activity.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 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 March 31, |       |                               |       |
|--|------------------------------|-------|-------------------------------|-------|
|  | Pension Benefits             |       | Other Postretirement Benefits |       |
|  | 2018                         | 2017  | 2018                          | 2017  |
|  | (in millions)                |       |                               |       |
| Components of net periodic (benefit) cost  |                              |       |                               |       |
| Service cost                               | \$79                         | \$71  | \$ 6                          | \$ 5  |
| Interest cost                              | 112                          | 119   | 18                            | 20    |
| Expected return on plan assets             | (204)                        | (195) | (27 )                         | (25 ) |
| Amortization of prior service cost         | (1 )                         | (1 )  | 0                             | 0     |
| Amortization of actuarial (gain) loss, net | 53                           | 48    | 4                             | 9     |
| Settlements                                | 0                            | 0     | 0                             | 0     |
| Special termination benefits               | 0                            | 3     | 0                             | 0     |
| Net periodic (benefit) cost                | \$39                         | \$45  | \$ 1                          | \$ 9  |

## 11. 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, 2017           | 660.1         | 237.5            | 422.6       |
| Common Stock issued                  | 0.0           | 0.0              | 0.0         |
| Common Stock acquired                | 0.0           | 3.3              | (3.3 )      |
| Stock-based compensation programs(1) | 0.0           | (1.7 )           | 1.7         |
| Balance, March 31, 2018              | 660.1         | 239.1            | 421.0       |

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

In December 2017, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to \$1.5 billion of its outstanding Common Stock during the period from January 1, 2018 through December 31, 2018. As of March 31, 2018, 3.3 million shares of the Company's Common Stock were repurchased under this authorization at a total cost of \$375 million.

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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.

## 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 three months ended March 31, 2018 and 2017, 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, 2017                   | \$(269)                                       | \$ 19,968                        | \$ (2,625)  | ) \$ 17,074   |
| Change in OCI before reclassifications       | 649   | (4,640)                          | ) (2)   | ) (3,993)   |
| Amounts reclassified from AOCI               | 0   | (26)                             | ) 56  | 30  |
| Income tax benefit (expense)                 | 8   | 845                              | (9)   | ) 844   |
| Cumulative effect of adoption of ASU 2016-01 | 0   | (847)                            | ) 0   | (847)   |
| Cumulative effect of adoption of ASU 2018-02 | (231)   | ) 2,282                          | (398)   | ) 1,653   |
| Balance, March 31, 2018                      | \$157   | \$ 17,582                        | \$ (2,978)  | ) \$ 14,761   |

|  | 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 | 570   | (319)                            | ) (12)  | ) 239   |
| Amounts reclassified from AOCI         | 1   | (490)                            | ) 56  | (433)   |
| Income tax benefit (expense)           | (62)  | ) 293                            | (15)  | ) 216   |
| Balance, March 31, 2017                | \$(464)                                       | \$ 17,655                        | \$ (2,548)  | ) \$ 14,643   |

(1) Includes cash flow hedges of \$(622) million and \$(39) million as of March 31, 2018 and December 31, 2017, respectively, and \$1,118 million and \$1,316 million as of March 31, 2017 and December 31, 2016, respectively.





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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

|  | Three Months Ended |         | Affected line item in<br>Consolidated Statements of<br>Operations |
|--|--------------------|---------|---|
|  | March 31,<br>2018  | 2017    |   |
| (in millions)  |                    |         |   |
| Amounts reclassified from AOCI(1)(2):  |                    |         |   |
| Foreign currency translation adjustment:                                     |                    |         |   |
| Foreign currency translation adjustments                                     | \$ 0               | \$ (1 ) | Realized investment gains<br>(losses), net                        |
| Foreign currency translation adjustments                                     | 0                  | 0       | Other income  |
| Total foreign currency translation adjustment                                | 0                  | (1 )    |   |
| Net unrealized investment gains (losses):                                    |                    |         |   |
| Cash flow hedges—Interest rate   | 0                  | (1 )    | (3)   |
| Cash flow hedges—Currency  | (3 )               | 0       | (3)   |
| Cash flow hedges—Currency/Interest rate                                      | (49 )              | 61      | (3)   |
| Net unrealized investment gains (losses) on<br>available-for-sale securities | 78                 | 430     |   |
| Total net unrealized investment gains (losses)                               | 26                 | 490     | (4)   |
| Amortization of defined benefit pension items:                               |                    |         |   |
| Prior service cost   | 1                  | 1       | (5)   |
| Actuarial gain (loss)  | (57 )              | (57 )   | (5)   |
| Total amortization of defined benefit pension items                          | (56 )              | (56 )   |   |
| Total reclassifications for the period                                       | \$ (30 )           | \$ 433  |   |

(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 5 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 invested assets 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:

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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<br>Gains (Losses)<br>on<br>Investment<br>Recoverables | DAC,<br>DSI,<br>VOBA<br>and<br>Reinsurance<br>Recoverables | Future<br>Policy<br>Benefits,<br>Policyholders'<br>Account<br>Balances<br>and<br>Reinsurance<br>Payables | Policyholders'<br>Dividends | Deferred<br>Income<br>Tax<br>(Liability)<br>Benefit | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss)<br>Related to<br>Net<br>Unrealized<br>Investment<br>Gains<br>(Losses) |
|---|--|--|--|-----------------------------|---|---|
|   | (in millions)  |  |  |                             |   |   |
| Balance, December 31, 2017  | \$286  | \$ (2 )  | \$ 3   | \$ (46 )                    | \$ (94 )  | \$ 147  |
| Net investment gains (losses) on investments arising during the period  | (10 )  |  |  |                             | 6   | (4 )  |
| Reclassification adjustment for (gains) losses included in net income   | (41 )  |  |  |                             | 24  | (17 )   |
| Reclassification adjustment for OTTI losses excluded from net income(1)   | (1 )   |  |  |                             | 1   | 0   |
| Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables   | 0  |  |  |                             | 0   | 0   |
| Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances and reinsurance payables |  |  | 0  |                             | 0   | 0   |
| Impact of net unrealized investment (gains) losses on policyholders' dividends  |  |  |  | 17                          | (8 )  | 9   |
| Balance, March 31, 2018   | \$234  | \$ (2 )  | \$ 3   | \$ (29 )                    | \$ (71 )  | \$ 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<br>Gains (Losses)<br>on<br>Investment<br>Recoverables | DAC, DSI,<br>VOBA<br>and<br>Reinsurance<br>Recoverables | Future<br>Policy<br>Benefits,<br>Policyholders'<br>Account<br>Balances<br>and<br>Reinsurance<br>Payables | Policyholders'<br>Dividends | Deferred<br>Income<br>Tax<br>(Liability)<br>Benefit | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss)<br>Related to<br>Net<br>Unrealized<br>Investment<br>Gains<br>(Losses) |
|----------------------------|--|---|--|-----------------------------|---|---|
|                            | (in millions)  |   |  |                             |   |   |
| Balance, December 31, 2017 | \$36,112   | \$ (1,580 )   | \$ (1,243 )  | \$ (3,631 )                 | \$ (9,837 )   | \$ 19,821   |

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|   |          |             |             |             |
|---|----------|-------------|-------------|-------------|
| Net investment gains (losses) on investments arising during the period  | (6,466 ) |             | 2,026       | (4,440 )    |
| Reclassification adjustment for (gains) losses included in net income   | 15       |             | (8 )        | 7           |
| Reclassification adjustment for OTTI losses excluded from net income(2)   | 1        |             | (1 )        | 0           |
| Impact of net unrealized investment losses on DAC, DSI, VOBA and reinsurance recoverables   | 544      |             | (203 )      | 341         |
| Impact of net unrealized investment losses on future policy benefits and policyholders' account balances and reinsurance payables |          | 257         | (137 )      | 120         |
| Impact of net unrealized investment losses on policyholders' dividends  |          | 1,018       | (685 )      | 333         |
| Cumulative effect of adoption of ASU 2016-01  | (2,042 ) | 813         | 212         | (1,017 )    |
| Cumulative effect of adoption of ASU 2018-02  |          |             | 2,282       | 2,282       |
| Balance, March 31, 2018   | \$27,620 | \$ (1,036 ) | \$ (986 )   | \$ (1,800 ) |
|   |          |             | \$ (6,351 ) | \$ 17,447   |

(1) Includes cash flow hedges. See Note 5 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.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 12. 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 March 31,<br>2018 |                               | 2017                |         |                               |                     |
|---|--------------------------------------|-------------------------------|---------------------|---------|-------------------------------|---------------------|
|   | Income                               | Weighted<br>Average<br>Shares | Per Share<br>Amount | Income  | Weighted<br>Average<br>Shares | Per Share<br>Amount |
| (in millions, except per share amounts)   |                                      |                               |                     |         |                               |                     |
| Basic earnings per share  |                                      |                               |                     |         |                               |                     |
| Net income (loss)   | \$1,364                              |                               |                     | \$1,372 |                               |                     |
| Less: Income (loss) attributable to noncontrolling interests  | 1                                    |                               |                     | 3       |                               |                     |
| Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards         | 16                                   |                               |                     | 17      |                               |                     |
| Net income (loss) attributable to Prudential Financial available to holders of Common Stock                       | \$1,347                              | 422.0                         | \$ 3.19             | \$1,352 | 429.9                         | \$ 3.14             |
| Effect of dilutive securities and compensation programs   |                                      |                               |                     |         |                               |                     |
| Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic    | \$16                                 |                               |                     | \$17    |                               |                     |
| Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted | 16                                   |                               |                     | 16      |                               |                     |
| Stock options   |                                      | 1.9                           |                     |         | 2.5                           |                     |
| Deferred and long-term compensation programs  |                                      | 1.1                           |                     |         | 0.9                           |                     |
| Exchangeable Surplus Notes  | 5                                    | 5.9                           |                     | 4       | 5.8                           |                     |
| Diluted earnings per share  |                                      |                               |                     |         |                               |                     |
| Net income (loss) attributable to Prudential Financial available to holders of Common Stock                       | \$1,352                              | 430.9                         | \$ 3.14             | \$1,357 | 439.1                         | \$ 3.09             |

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 March 31, 2018 and 2017, as applicable, were based on 4.9 million and 5.3 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:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | Three Months Ended March 31,                                       |                |
|---|--|----------------|
|   | 2018   | 2017           |
|   | Shares   | Shares         |
|   | Exercise Price   | 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 \$ 107.65  | 0.2 \$ 110.45  |
| 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  | 0.5            |
| Antidilutive shares due to net loss available to holders of Common Stock        | 0.0  | 0.0            |
| Total antidilutive stock options and shares                                     | 0.3  | 0.7            |

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. This was equivalent to 5.1 million shares and an initial exchange price per share of Common Stock of \$98.78. The exchange rate is subject to customary anti-dilution adjustments and is accordingly revalued during the fourth quarter of each year. As of March 31, 2018, the exchange rate is equal to 11.7643 shares of Common Stock per each \$1,000 principal amount of surplus notes. This is equivalent to 5.88 million shares and an exchange price per share of Common Stock of \$85.00. 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 the related interest expense, net of tax, is excluded from the numerator, if the overall effect is dilutive.

## 13. SEGMENT INFORMATION

## Segments

The Company's principal operations are comprised of five divisions, which together encompass seven segments, and its Corporate and Other operations. The U.S. Individual Solutions division consists of the Individual Annuities and Individual Life segments. The U.S. Workplace Solutions division consists of the Retirement and Group Insurance segments. The Investment Management division consists of the Investment Management segment. 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 adjustments;  
• charges related to realized investment gains (losses), net;  
• net investment gains (losses) on assets supporting experience-rated contractholder liabilities and changes in experience-rated contractholder liabilities due to asset value changes;  
• divested businesses; and  
• equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.



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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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, 2017.

Beginning in the first quarter of 2018, as a result of the adoption of ASU 2016-01 (see Note 2), changes in the fair value of equity securities are included in net income, but are excluded from adjusted operating income. These changes in fair value are classified as related adjustments within "realized investment gains (losses), net, and related adjustments" reconciling item in the tables below.

## 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":

|  | Three Months<br>Ended<br>March 31,<br>2018    2017<br>(in millions) |         |
|--|---|---------|
| Adjusted operating income before income taxes by segment:  |   |         |
| Individual Annuities   | \$519   | \$468   |
| Individual Life  | 36  | 118     |
| Total U.S. Individual Solutions division(1)  | 555   | 586     |
| Retirement   | 317   | 397     |
| Group Insurance  | 55  | 34      |
| Total U.S. Workplace Solutions division(1)   | 372   | 431     |
| Investment Management  | 232   | 196     |
| Total Investment Management division(1)  | 232   | 196     |
| International Insurance  | 856   | 799     |
| Total International Insurance division   | 856   | 799     |
| Corporate and Other operations   | (294 )  | (352 )  |
| Total Corporate and Other  | (294 )  | (352 )  |
| Total segment adjusted operating income before income taxes  | 1,721   | 1,660   |
| Reconciling items:   |   |         |
| Realized investment gains (losses), net, and related adjustments                                     | 87  | (66 )   |
| Charges related to realized investment gains (losses), net   | (23 )   | 104     |
| Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net      | (403 )  | 44      |
| Change in experience-rated contractholder liabilities due to asset value changes                     | 418   | (12 )   |
| Divested businesses:   |   |         |
| Closed Block division  | (9 )  | 34      |
| Other divested businesses  | (72 )   | 6       |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (26 )   | (28 )   |
| Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures    | \$1,693   | \$1,742 |

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(1) Prior period divisional subtotals are presented on a basis consistent with the Company's new organizational structure. Individual segment results and consolidated totals remain unchanged. 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, 2017.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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:

|  | Revenues           |                | Total Assets |              |
|--|--------------------|----------------|--------------|--------------|
|  | Three Months Ended |                | March 31,    | December 31, |
|  | March 31, 2018     | March 31, 2017 | 2018         | 2017         |
|  | (in millions)      |                |              |              |
| Individual Annuities   | \$1,252            | \$1,215        | \$178,458    | \$183,666    |
| Individual Life  | 1,425              | 1,445          | 84,393       | 83,985       |
| Total U.S. Individual Solutions division(1)  | 2,677              | 2,660          | 262,851      | 267,651      |
| Retirement   | 2,089              | 1,937          | 179,483      | 183,629      |
| Group Insurance  | 1,416              | 1,383          | 42,064       | 41,575       |
| Total U.S. Workplace Solutions division(1)   | 3,505              | 3,320          | 221,547      | 225,204      |
| Investment Management  | 826                | 756            | 47,811       | 49,944       |
| Total Investment Management division(1)  | 826                | 756            | 47,811       | 49,944       |
| International Insurance  | 6,040              | 5,409          | 222,768      | 211,647      |
| Total International Insurance division   | 6,040              | 5,409          | 222,768      | 211,647      |
| Corporate and Other operations   | (173 )             | (138 )         | 12,729       | 14,556       |
| Total Corporate and Other  | (173 )             | (138 )         | 12,729       | 14,556       |
| Total  | 12,875             | 12,007         | 767,706      | 769,002      |
| Reconciling items:   |                    |                |              |              |
| Realized investment gains (losses), net, and related adjustments                                     | 87                 | (66 )          |              |              |
| Charges related to realized investment gains (losses), net   | (71 )              | (22 )          |              |              |
| Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net      | (403 )             | 44             |              |              |
| Divested businesses:   |                    |                |              |              |
| Closed Block division  | 1,163              | 1,557          | 61,971       | 63,134       |
| Other divested businesses  | 132                | 181            |              |              |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (26 )              | (31 )          |              |              |
| Total per Unaudited Interim Consolidated Financial Statements  | \$13,757           | \$13,670       | \$829,677    | \$832,136    |

Prior period divisional subtotals are presented on a basis consistent with the Company's new organizational structure. Individual segment results and consolidated totals remain unchanged. 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, 2017.

Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other. The Investment Management segment revenues include

intersegment revenues, primarily consisting of asset-based management and administration fees, as follows:

Three  
Months  
Ended  
March 31,  
2018 2017  
(in  
millions)

Investment Management segment intersegment revenues \$184 \$172

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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.

## 14. COMMITMENTS AND CONTINGENT LIABILITIES

## Commitments and Guarantees

## Commercial Mortgage Loan Commitments

|   | March 31,     | December 31, |
|---|---------------|--------------|
|   | 2018          | 2017         |
|   | (in millions) |              |
| Total outstanding mortgage loan commitments                           | \$2,093       | \$ 2,772     |
| Portion of commitment where prearrangement to sell to investor exists | \$477         | \$ 435       |

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)

|   | March 31,     | December 31, |
|---|---------------|--------------|
|   | 2018          | 2017         |
|   | (in millions) |              |
| Expected to be funded from the general account and other operations outside the separate accounts | \$6,359       | \$ 6,319     |
| Expected to be funded from separate accounts  | \$92          | \$ 141       |

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

|   | March 31,     | December 31, |
|---|---------------|--------------|
|   | 2018          | 2017         |
|   | (in millions) |              |
| Indemnification provided to certain securities lending clients          | \$5,142       | \$ 4,619     |
| Fair value of related collateral associated with above indemnifications | \$5,233       | \$ 4,722     |
| 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 5, 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Guarantees of Asset Values

|  | March 31,     | December 31, |
|--|---------------|--------------|
|  | 2018          | 2017         |
|  | (in millions) |              |
| Guaranteed value of third-parties' assets                          | \$76,159      | \$ 77,290    |
| Fair value of collateral supporting these assets                   | \$75,402      | \$ 77,651    |
| Asset (liability) associated with guarantee, carried at fair value | \$6           | \$ (1 )      |

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

|  | March 31,     | December 31, |
|--|---------------|--------------|
|  | 2018          | 2017         |
|  | (in millions) |              |
| Maximum exposure under indemnification agreements for mortgage loans serviced by the Company | \$1,644       | \$ 1,609     |
| First-loss exposure portion of above   | \$492         | \$ 483       |
| Accrued liability associated with guarantees   | \$15          | \$ 14        |

As part of the commercial mortgage activities of the Company's Investment 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 \$13,078 million and \$12,892 million of mortgages subject to these loss-sharing arrangements as of March 31, 2018 and December 31, 2017, respectively, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of March 31, 2018, these mortgages had a weighted-average debt service coverage ratio of 1.85 times and a weighted-average loan-to-value ratio of 60%. As of December 31, 2017, 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 three months ended March 31, 2018 and 2017, respectively.

## Other Guarantees

|   | March 31,     | December 31, |
|---|---------------|--------------|
|   | 2018          | 2017         |
|   | (in millions) |              |
| Other guarantees where amount can be determined             | \$31          | \$ 31        |
| Accrued liability for other guarantees and indemnifications | \$0           | \$ 0         |

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 is \$31 million for both March 31, 2018 and December 31, 2017 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.



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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 potentially material, is disclosed, including matters discussed below. The Company estimates that as of March 31, 2018, 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.

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, 2017, and should be read in conjunction with the complete descriptions provided in the Form 10-K.

Individual Annuities, Individual Life and Group Insurance

Huffman v. The Prudential Insurance Company of America

In April 2018, the Third Circuit Court of Appeals denied Prudential Insurance's request for leave to appeal the class certification decision.

Other Matters

Rosen v. PRIAC, et al.

In March 2018, plaintiff's time to appeal the decision of the Court of Appeals expired. This case is now closed.

Residential Mortgage-Backed Securities Trustee Litigation

PICA et al. v. Citibank N.A.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

In March 2018, the federal court granted Citibank’s motion for summary judgment. In April 2018, plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Second Circuit from the March 2018 decision granting summary judgment.

PICA et al. v. HSBC, et al.

In February 2018, the court denied plaintiffs’ motion for class certification and plaintiffs filed a petition with the Second Circuit Court of Appeals seeking permission to appeal the class certification decision.

PICA et al. v. U.S. Bank N.A.

In February 2018, the federal court entered a stipulated order: (i) dismissing all claims involving three trusts with prejudice; (ii) with respect to twenty trusts, dismissing with prejudice the Trust Indenture Act (“TIA”) claims for lack of standing, and the breach of contract claims without prejudice; and (iii) dismissing without prejudice the TIA and breach of contract claims concerning the four remaining trusts. In February 2018, U.S. Bank filed an appeal from the state court’s order concerning U.S. Bank’s motion to dismiss the amended complaint. In March 2018, plaintiffs filed a cross-appeal of the state court’s order concerning the motion to dismiss.

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.

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

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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 March 31, 2018, compared with December 31, 2017, and its consolidated results of operations for the three months ended March 31, 2018 and 2017. 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, 2017, 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.

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### Overview

Prudential Financial, a financial services leader with approximately \$1.389 trillion of assets under management as of March 31, 2018, 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 comprised of five divisions, which together encompass seven segments, and our Corporate and Other operations. The U.S. Individual Solutions division consists of our Individual Annuities and Individual Life segments. The U.S. Workplace Solutions division consists of our Retirement and Group Insurance segments. The Investment Management Division is comprised of our Investment Management segment. 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.

### Regulatory Developments

#### Fiduciary Rules

In March 2018, the Fifth Circuit Court of Appeals vacated the fiduciary rules adopted by the U.S. Department of Labor (“DOL”) in April 2016. The decision is currently scheduled to become effective on May 7, 2018, but the effective date could be delayed pending further judicial review. We cannot predict whether the decision will ultimately become effective, or if it becomes effective, how the decision will impact our businesses, including in view of other pending regulatory developments regarding enhanced standards of care.

In April 2018, the Securities and Exchange Commission (the “SEC”) proposed a package of rulemakings and interpretative guidance that would, among other things, require broker-dealers to act in the best interest of retail customers when recommending securities transactions or investment strategies to them. The proposals would also clarify the SEC’s views of the fiduciary duty that investment advisers owe to their clients. If enacted in their current form, we believe the primary impact of the proposals would be in our Individual Annuities, Retirement, Investment Management and Individual Life segments and our Prudential Advisors distribution system, which we include in the results of our Individual Life segment. Given the uncertainty of the ultimate outcome of these proposals, we cannot predict the timing of any final rules or interpretations or their expected effects on our businesses.

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, 2017.

#### 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, market experience true-ups, and amortization of both deferred policy acquisition costs (“DAC”) and value of business acquired (“VOBA”);
- 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.

For more information on interest rate risks, see “Risk Factors—Market Risk” included in our Annual Report on Form 10-K for the year ended December 31, 2017.

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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 action in March 2018 to further raise short-term interest rates by a total of 25 basis points ("bps"). 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. Individual Solutions division, U.S. Workplace Solutions division, Investment Management division and our Corporate and Other operations, we expect annual scheduled payments and prepayments to be approximately 6.0% of the fixed maturity security and commercial mortgage loan portfolios through 2019. The general account for these operations has approximately \$192 billion of such assets (based on net carrying value) as of March 31, 2018. As these assets mature, the average portfolio yield for fixed maturity securities and commercial mortgage loans of approximately 4.2% as of March 31, 2018, is expected to decline due to reinvesting in a lower interest rate environment.

Included in the \$192 billion of fixed maturity securities and commercial mortgage loans are approximately \$110 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 \$110 billion, approximately 65% contain provisions for prepayment premiums. The reinvestment of scheduled payments or prepayments (not subject to a prepayment fee) 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<br>March<br>31, 2018<br>(in<br>billions) |
|--|--|
| Long-duration insurance products with fixed and guaranteed terms                           | \$ 113   |
| Contracts with adjustable crediting rates subject to guaranteed minimums                   | 56   |
| Participating contracts where investment income risk ultimately accrues to contractholders | 15   |
| Total  | \$ 184   |

The \$113 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 bps, between rates being credited to contractholders as of March 31, 2018, and the respective guaranteed minimums.

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

|   | At<br>guaranteed<br>minimum | 1-49<br>bps above<br>guaranteed<br>minimum | 50-99<br>bps above<br>guaranteed<br>minimum | 100-150<br>bps above<br>guaranteed<br>minimum | Greater than<br>150<br>bps above<br>guaranteed<br>minimum | Total   |
|---|-----------------------------|--|---|---|---|---------|
|   | (\$ in billions)            |  |   |   |   |         |
| Range of Guaranteed Minimum<br>Crediting Rates: |                             |  |   |   |   |         |
| Less than 1.00%                                 | \$0.5                       | \$ 1.1                                     | \$ 0.4                                      | \$ 0.1  | \$ 0.0  | \$2.1   |
| 1.00% - 1.99%                                   | 0.9                         | 9.3  | 6.5   | 1.6   | 0.3   | 18.6    |
| 2.00% - 2.99%                                   | 1.0                         | 0.7  | 0.5   | 2.5   | 0.4   | 5.1     |
| 3.00% - 4.00%                                   | 26.6                        | 2.3  | 0.2   | 0.2   | 0.0   | 29.3    |
| Greater than 4.00%                              | 1.0                         | 0.0  | 0.0   | 0.0   | 0.0   | 1.0     |
| Total(1)  | \$30.0                      | \$ 13.4                                    | \$ 7.6                                      | \$ 4.4  | \$ 0.7  | \$56.1  |
| Percentage of total                             | 53                          | % 24                                       | % 14  | % 8   | % 1   | % 100 % |

(1) Includes approximately \$0.9 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 2.90% for the period from April 1, 2018 through December 31, 2019, and credit spreads remain unchanged from levels as of March 31, 2018, 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 \$7 million in 2018 and \$31 million in 2019. This impact is most significant in the Retirement 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 \$60 billion of general account assets in the Closed Block division support obligations and liabilities relating to the Closed Block policies only. See Note 7 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

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## 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. In recent years, the Bank of Japan's monetary policy has resulted 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<br>March<br>31, 2018<br>(in<br>billions) |
|---|--|
| Long-duration insurance products with fixed and guaranteed terms                    | \$ 132   |
| Contracts with a market value adjustment if invested amount is not held to maturity | 25   |
| Contracts with adjustable crediting rates subject to guaranteed minimums            | 10   |
| Total   | \$ 167   |

The \$132 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 \$10 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 2018 new money yields would be 25 bps 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 2018 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.



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## Results of Operations

## Consolidated Results of Operations

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

|  | Three Months    |          |
|--|-----------------|----------|
|  | Ended March 31, |          |
|  | 2018            | 2017     |
|  | (in millions)   |          |
| Revenues   | \$13,757        | \$13,670 |
| Benefits and expenses  | 12,064          | 11,928   |
| Income (loss) before income taxes and equity in earnings of operating joint ventures | 1,693           | 1,742    |
| Income tax expense (benefit)   | 352             | 395      |
| Income (loss) before equity in earnings of operating joint ventures                  | 1,341           | 1,347    |
| Equity in earnings of operating joint ventures, net of taxes                         | 23              | 25       |
| Net income (loss)  | 1,364           | 1,372    |
| Less: Income attributable to noncontrolling interests                                | 1               | 3        |
| Net income (loss) attributable to Prudential Financial, Inc.                         | \$1,363         | \$1,369  |

The \$6 million decrease in “Net income (loss) attributable to Prudential Financial, Inc.” for the first quarter of 2018 compared to the first quarter of 2017 reflected the following notable items:

\$268 million net unfavorable variance, on a pre-tax basis, primarily from a loss in the current period from our Divested Businesses compared to income in the prior period; and

\$205 million unfavorable variance from net pre-tax realized investment gains and losses for PFI excluding the Closed Block division, and excluding the impact of the hedging program associated with certain variable annuities discussed below (see “—Realized Investment Gains and Losses” for additional information).

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

\$360 million favorable variance, on a pre-tax basis, 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. Individual Solutions Division—Individual Annuities—Variable Annuity Risks and Risk Mitigants” for additional information); and

\$107 million net favorable variance from higher operating results from our business segments and lower income tax expense due to lower net income compared to the prior year period as well as the impact of tax reform (see Note 8 to the Unaudited Interim Consolidated Financial Statements).

## 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.

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.

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|   | Three Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |         |
|---|--|---------|
| Adjusted operating income before income taxes by segment:   |  |         |
| Individual Annuities  | \$519  | \$468   |
| Individual Life   | 36   | 118     |
| Total U.S. Individual Solutions division(1)   | 555  | 586     |
| Retirement  | 317  | 397     |
| Group Insurance   | 55   | 34      |
| Total U.S. Workplace Solutions division(1)  | 372  | 431     |
| Investment Management   | 232  | 196     |
| Total Investment Management division(1)   | 232  | 196     |
| International Insurance   | 856  | 799     |
| Total International Insurance division  | 856  | 799     |
| Corporate and Other operations  | (294 )   | (352 )  |
| Total Corporate and Other   | (294 )   | (352 )  |
| Total segment adjusted operating income before income taxes   | 1,721  | 1,660   |
| Reconciling items:  |  |         |
| Realized investment gains (losses), net, and related adjustments(2)                                     | 87   | (66 )   |
| Charges related to realized investment gains (losses), net(3)   | (23 )  | 104     |
| Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net(4)      | (403 )   | 44      |
| Change in experience-rated contractholder liabilities due to asset value changes(5)                     | 418  | (12 )   |
| Divested businesses(6):   |  |         |
| Closed Block division   | (9 )   | 34      |
| Other divested businesses   | (72 )  | 6       |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(7) | (26 )  | (28 )   |
| Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures       | \$1,693  | \$1,742 |

Prior period divisional subtotals are presented on a basis consistent with the Company's new organizational structure. Individual segment results and consolidated totals remain unchanged. For additional information, see (1) Note 22 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

(2) Represents "Realized investment gains (losses), net," and related adjustments. See "—Realized Investment Gains and Losses" and Note 13 to our Unaudited Interim Consolidated Financial Statements for additional information.

(3) 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.

(4) Represents net investment gains (losses) on assets supporting experience-rated contractholder liabilities. See "—Experience-Rated Contractholder Liabilities, Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments."

(5) 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, Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments."

(6) Represents 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, but that did not qualify for "discontinued operations"

accounting treatment under U.S. GAAP. See “—Divested Businesses.”

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 item in our Unaudited Interim Consolidated Statements of Operations. Earnings (7) 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:

Individual Annuities. Segment results for the first quarter of 2018 increased in comparison to the prior year period, primarily reflecting higher net asset-based fee income and lower amortization costs and reserve provisions, partially offset by lower net investment spread results.



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**Individual Life.** Segment results for the first quarter of 2018 decreased in comparison to the prior year period, primarily reflecting lower underwriting results driven by the unfavorable ongoing impact of our second quarter 2017 annual review and update of assumptions and other refinements, and lower net investment spread results.

**Retirement.** Segment results for the first quarter of 2018 decreased in comparison to the prior year period, primarily reflecting lower net investment spread results and higher general and administrative expenses, net of capitalization, partially offset by favorable reserve experience.

**Group Insurance.** Segment results for the first quarter of 2018 increased in comparison to the prior year period, primarily reflecting more favorable underwriting results in our group life business, partially offset by lower net investment spread results, higher expenses and less favorable underwriting results in our group disability business.

**Investment Management.** Segment results for the first quarter of 2018 increased in comparison to the prior year period, primarily reflecting higher asset management fees, net of related expenses, and higher other related revenues, net of associated expenses, partially offset by higher expenses.

**International Insurance.** Segment results for the first quarter of 2018 increased in comparison to the prior year period, primarily reflecting growth of business in force, a shift in earnings seasonality resulting from the elimination of the one-month reporting lag for Gibraltar and Other operations (see Note 1 to our Unaudited Interim Consolidated Financial Statements for more information), and favorable comparative policyholder experience, partially offset by a lower contribution from net investment spread results.

**Corporate and Other operations.** The results for the first quarter of 2018 reflected decreased losses in comparison to the prior year period driven by lower levels of corporate expenses and higher income from our qualified pension plan, partially offset by lower net investment income.

**Closed Block Division.** The Closed Block division results for the first quarter of 2018 decreased in comparison to the prior year period, primarily driven by a decrease in net realized investment gains and related activity and lower net investment income, partially offset by a decrease in the policyholder dividend obligation.

## 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 13 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.

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**Assets Under Management.** In managing our Investment Management business, we analyze assets under management (which do not correspond directly 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.

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.

|   | March 31,<br>2018 | December 31,<br>2017 |
|---|-------------------|----------------------|
|   | (in billions)     |                      |
| Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent earnings: |                   |                      |
| Forward currency hedging program(1)   | \$ 1.5            | \$ 1.6               |
| Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity:   |                   |                      |

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|  |        |         |
|--|--------|---------|
| U.S. dollar-denominated assets held in yen-based entities(2):                                      |        |         |
| U.S. dollar-denominated investments(3)   | 13.2   | 13.7    |
| Other  | 0.1    | 0.1     |
| Subtotal   | 13.3   | 13.8    |
| Dual currency and synthetic dual currency investments(4)   | 0.6    | 0.6     |
| Total instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity | 13.9   | 14.4    |
| Total hedges   | \$15.4 | \$ 16.0 |

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

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- Excludes \$43.0 billion and \$41.2 billion as of March 31, 2018 and December 31, 2017, 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.
- (3) Includes U.S. dollar-denominated fixed maturities at amortized cost and U.S. dollar notional amount of foreign currency derivative contracts outstanding.
- Dual currency and synthetic dual currency investments are held by our yen-based entities in the form of fixed (4) 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 having our Japanese insurance operations enter into currency hedging transactions. Those hedges are with a subsidiary of Prudential Financial. These 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.

Impact of foreign currency exchange rate movements on earnings

The financial results of our International Insurance and Investment 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. The financial results of our Retirement segment reflected the impact of an intercompany foreign currency exchange arrangement with our Corporate and Other operations in 2016 and 2017 prior to its termination effective January 1, 2018. This foreign currency exchange risk is now managed within our Retirement segment using a strategy that may include external hedges. 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 three months ended March 31, 2018, approximately 25% of the segment's earnings were yen-based and, as of March 31, 2018, we have hedged 100% of expected yen-based earnings for 2018, and 79% and 30% of expected yen-based earnings for 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 arrangements, our International Insurance segment's results for 2018 and 2017 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 111 and 112 yen per U.S. dollar, respectively, and Korean won-denominated earnings at fixed currency exchange rates of 1150 and 1130 Korean won per U.S. dollar, respectively. 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.

As a result of these arrangements, for Investment 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.

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

|   | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in<br>millions) |      |
|---|--|------|
| Segment impacts of intercompany arrangements:                     |  |      |
| International Insurance   | \$(15)   | \$ 2 |
| Retirement(1)   | 0  | 1    |
| Investment Management   | (1 )   | 1    |
| Impact of intercompany arrangements(2)                            | (16 )  | 4    |
| Corporate and Other operations:                                   |  |      |
| Impact of intercompany arrangements(2)                            | 16   | (4 ) |
| Settlement gains (losses) on forward currency contracts(3)        | (23 )  | 2    |
| Net benefit (detriment) to Corporate and Other operations         | (7 )   | (2 ) |
| Net impact on consolidated revenues and adjusted operating income | \$(23)   | \$ 2 |

Effective January 1, 2018 the intercompany arrangement between our Corporate and Other operations and (1) Retirement was terminated and this risk is now managed within our Retirement segment using a strategy that may include external hedges.

Represents the difference between non-U.S. dollar-denominated earnings translated on the basis of weighted (2) average monthly currency exchange rates versus fixed currency exchange rates determined in connection with the foreign currency income hedging program.

As of March 31, 2018 and 2017, the notional amounts of these forward currency contracts within our Corporate (3) and Other operations were \$2.8 billion and \$2.7 billion, respectively, of which \$1.5 billion and \$1.5 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's operations 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. The result of this alignment was to reduce differences in the accounting for changes in the value of these assets and liabilities that arise due to changes in foreign currency exchange rate movements. 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 \$3.7 billion and \$3.9 billion as of March 31, 2018 and December 31, 2017, 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 7% of the \$3.7 billion balance as of March 31, 2018 will be recognized throughout the remainder of 2018, approximately 9% will be recognized in 2019, and a majority of the remaining balance will be recognized from 2020 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.



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

### DAC, DSI and VOBA

The near-term future equity rate of return assumption used in evaluating DAC, DSI and VOBA 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 March 31, 2018, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 4.3% near-term mean reversion equity expected rate of return.

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 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.

### 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. Individual Solutions Division

##### Individual Annuities

##### Operating Results

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

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|  | Three Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |         |
|--|--|---------|
| Operating results:   |  |         |
| Revenues   | \$1,252  | \$1,215 |
| Benefits and expenses  | 733  | 747     |
| Adjusted operating income  | 519  | 468     |
| Realized investment gains (losses), net, and related adjustments                     | 598  | (16 )   |
| Related charges  | (126 )   | 97      |
| Income (loss) before income taxes and equity in earnings of operating joint ventures | \$991  | \$549   |

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## Adjusted Operating Income

Adjusted operating income increased \$51 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased \$54 million. The increase was 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 commission expense, primarily reflects higher average variable annuity account values due to market appreciation. The lower reserve provisions are also attributable to market appreciation of account values in comparison to the prior year period. 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 \$16 million and \$19 million in the first quarter of 2018 and 2017, respectively. The net benefit for both periods primarily reflected the impact of equity market performance on the contractholder accounts. The first quarter of 2018 also reflects the hedge effectiveness relative to our assumptions.

## Revenues, Benefits and Expenses

Revenues, as shown in the table above under “—Operating Results,” increased \$37 million. Excluding a \$14 million net decrease related to the impacts of certain changes in our estimated profitability of the business, as discussed above, revenues increased \$51 million. Higher average variable annuity account values and impacts from 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,” decreased \$14 million. Excluding a \$11 million net decrease related to the impacts of certain changes in our estimated profitability of the business, as discussed above, benefits and expenses decreased \$3 million.

## 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 macro environment and 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<br>March 31, |            | Twelve<br>Months<br>Ended<br>March 31 |
|--------------------------------|---------------------------------|------------|---------------------------------------|
|                                | 2018                            | 2017       | 2018                                  |
| Total Individual Annuities(1): |                                 |            |                                       |
| Beginning total account value  | \$ 168,626                      | \$ 156,783 | \$ 160,319                            |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Sales  | 1,724     | 1,440     | 6,178     |
| Surrenders and withdrawals                                   | (2,895 )  | (2,353 )  | (10,363 ) |
| Net sales  | (1,171 )  | (913 )    | (4,185 )  |
| Benefit payments   | (537 )    | (497 )    | (1,913 )  |
| Net flows  | (1,708 )  | (1,410 )  | (6,098 )  |
| Change in market value, interest credited and other activity | (1,329 )  | 5,851     | 14,175    |
| Policy charges   | (938 )    | (905 )    | (3,745 )  |
| Ending total account value                                   | \$164,651 | \$160,319 | \$164,651 |

(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 \$161.2 billion and \$156.8 billion as of March 31, 2018 and 2017, respectively. Fixed annuity account values were \$3.5 billion as of both March 31, 2018 and 2017.

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Net sales, for the three months ended March 31, 2018, decreased in comparison to the prior year period, reflecting higher surrenders and withdrawals partially offset by higher sales. The increase in account values for the twelve months ended March 31, 2018, was largely driven by favorable changes in the market value of contractholder funds, partially offset by contract charges on contractholder accounts and net sales and benefit payments.

### Variable Annuity Risks and Risk Mitigants

The following is a summary of: (i) certain risks associated with Individual Annuities' products; (ii) certain 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, 2017.

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 returns 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 fluctuations in capital markets primarily through a combination of Product Design Features, an Asset Liability Management Strategy, a Capital Hedge Program and External Reinsurance.

### Product Design Features

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 continue to introduce 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.

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|  | As of<br>March<br>31,<br>2018<br>(in millions) | As of<br>December<br>31,<br>2017 |
|--|--|----------------------------------|
| U.S. GAAP liability (including non-performance risk)                     | \$6,944  | \$ 8,663                         |
| Non-performance risk adjustment  | 3,440  | 3,228                            |
| Subtotal   | 10,384   | 11,891                           |
| Adjustments including risk margins and valuation methodology differences | (2,521 )                                       | (2,742 )                         |
| Economic liability managed through the ALM strategy                      | \$7,863  | \$ 9,149                         |

As of March 31, 2018, 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 our Consolidated Statements of Operations from changes in the U.S. GAAP embedded derivative liability and hedge positions under the ALM strategy, and the related amortization of DAC and other costs, that are excluded from adjusted operating income.

|   | Three Months<br>Ended<br>March 31,<br>2018 2017<br>(in<br>millions)(1) |        |
|---|--|--------|
| Excluding impact of assumption updates and other refinements:   |  |        |
| Net hedging impact(2)   | \$(149)  | \$48   |
| Change in portions of U.S. GAAP liability, before NPR(3)  | 370  | 632    |
| Change in the NPR adjustment  | 184  | (753)  |
| Net impact from changes in the U.S. GAAP embedded derivative and hedge positions—reported in Individual Annuities   | 405  | (73 )  |
| Related benefit (charge) to amortization of DAC and other costs   | (107 )   | 11     |
| Net impact of assumption updates and other refinements  | 0  | 0      |
| 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 | \$298  | \$(62) |

(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.

Represents risk margins and valuation methodology differences between the economic liability managed by the (3) ALM strategy and the U.S. GAAP liability, as well as the portion of the economic liability managed with fixed income instruments.

For the first quarter of 2018, 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 \$298 million. The net impact from changes in the U.S. GAAP embedded derivative and hedge positions resulted in a net benefit of \$405 million, predominantly as a result of widening credit spreads used in measuring our living benefit contracts. Partial offsets are included in the \$107 million of related charges to amortization of DAC and other costs.

For the first quarter of 2017, the net impact was a charge of \$62 million. Net hedging impacts reflect a \$48 million net benefit, primarily driven by declining interest rate volatility. Changes in the NPR adjustment resulted in a \$753

million net charge, driven by the tightening of credit spreads and net decreases in the base embedded derivative liability before NPR primarily due to equity market appreciation and rising swap rates. Each of these items resulted in partial offsets included in the \$11 million related benefit to amortization of DAC and other costs.

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.”

Capital Hedge Program

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During 2017, we commenced a capital hedge program within the Individual Annuities segment to further hedge equity market impacts. The program is intended to protect a portion of the overall capital position of the variable annuities business against its exposure to the equity markets. The capital hedge program is conducted using equity derivatives which include equity call and put options, total return swaps and futures contracts. The changes in value of these derivatives are recognized in adjusted operating income over the expected duration of the capital hedge program.

## External Reinsurance

As of March 31, 2018, \$3.2 billion of Highest Daily Lifetime Income (“HDI”) v.3.0 account values are reinsured to Union Hamilton Reinsurance Ltd., an external counterparty, pursuant to a quota share agreement that covered approximately 50% of new business between April 1, 2015 and December 31, 2016. HDI v.3.0 is the current version of our “highest daily” living benefits guarantee that is available with our Prudential Premier® Retirement Variable Annuity. New sales of HDI v.3.0 subsequent to December 31, 2016 are not covered by this external reinsurance agreement.

## 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.

|  | March 31, 2018 |            | December 31, 2017 |            | March 31, 2017 |            |
|--|----------------|------------|-------------------|------------|----------------|------------|
|  | 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) | \$ 111,967     | 69 %       | \$ 114,686        | 69 %       | \$ 109,163     | 69 %       |
| ALM strategy only                              | 8,921          | 5 %        | 9,317             | 6 %        | 9,416          | 6 %        |
| Automatic rebalancing only                     | 946            | 1 %        | 1,003             | 1 %        | 1,123          | 1 %        |
| External reinsurance(3)                        | 3,165          | 2 %        | 3,227             | 2 %        | 3,025          | 2 %        |
| PDI  | 9,926          | 6 %        | 9,996             | 5 %        | 8,295          | 5 %        |
| Other products                                 | 2,690          | 2 %        | 2,791             | 2 %        | 2,761          | 2 %        |
| Total living benefit/GMDB features             | \$ 137,615     |            | \$ 141,020        |            | \$ 133,783     |            |
| GMDB features and other(4)                     | 23,556         | 15 %       | 24,133            | 15 %       | 23,047         | 15 %       |
| Total variable annuity account value           | \$ 161,171     |            | \$ 165,153        |            | \$ 156,830     |            |

(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 certain new  
(3) HDI 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.

## Individual Life

## Operating Results

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

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|  | Three Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |         |
|--|--|---------|
| Operating results:   |  |         |
| Revenues   | \$1,425  | \$1,445 |
| Benefits and expenses  | 1,389  | 1,327   |
| Adjusted operating income  | 36   | 118     |
| Realized investment gains (losses), net, and related adjustments                     | (188 )   | (43 )   |
| Related charges  | 101  | 19      |
| Income (loss) before income taxes and equity in earnings of operating joint ventures | \$(51 )  | \$94    |

## Adjusted Operating Income

Adjusted operating income decreased \$82 million, primarily reflecting lower underwriting results driven by the unfavorable ongoing impact of our second quarter 2017 annual review and update of assumptions and other refinements, and a lower contribution from net investment spread results driven by lower income on non-coupon investments.

## Revenues, Benefits and Expenses

Revenues, as shown in the table above under “—Operating Results,” decreased \$20 million. Policy charges and fee income, asset management and service fees and other income decreased \$36 million, reflecting higher cost of reinsurance premiums, as a result of the unfavorable ongoing impact of the second quarter 2017 change in the method of accounting for reinsurance, partially offset by related lower benefits and expenses, as discussed below. This decrease was partially offset by an increase in asset management and service fees and other income from continued business growth. Premiums increased \$10 million primarily driven by continued business growth. Investment income increased \$6 million, primarily reflecting higher average invested assets resulting from continued business growth and higher investment income from unaffiliated reserve financing activity, which resulted in a corresponding increase in interest expense, as discussed below, partially offset by lower income on non-coupon investments.

Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$62 million. Policyholders’ benefits and interest credited to account balances increased \$20 million, reflecting continued business growth, partially offset by the favorable ongoing impact of the second quarter 2017 change in the method of accounting for reinsurance (which was more than offset by the related unfavorable impact in revenues, as discussed above). The amortization of DAC increased \$20 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 \$12 million related to higher reserve financing costs, as discussed above.

## 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<br>Ended March<br>31, 2018 | Three Months<br>Ended March<br>31, 2017 |
|------------|---|---|
| Prudential |   |   |
| Advisory   |   |   |
| Total      |   |   |

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|                              | (in millions) |      |       |      |       |       |
|------------------------------|---------------|------|-------|------|-------|-------|
| Term Life                    | \$7           | \$42 | \$49  | \$7  | \$42  | \$49  |
| Guaranteed Universal Life(1) | 3             | 18   | 21    | 6    | 47    | 53    |
| Other Universal Life(1)      | 9             | 17   | 26    | 8    | 13    | 21    |
| Variable Life                | 11            | 18   | 29    | 6    | 17    | 23    |
| Total                        | \$30          | \$95 | \$125 | \$27 | \$119 | \$146 |

Single pay life premiums and excess (unscheduled) premiums are included in annualized new business premiums based on a 10% credit and represented approximately 24% and 13% of Guaranteed Universal Life and 0% and 1% of Other Universal Life annualized new business premiums for the three months ended March 31, 2018 and 2017, respectively.

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Total annualized new business premiums for the three months ended March 31, 2018 decreased \$21 million compared to the prior year period primarily driven by lower guaranteed universal life sales, partially offset by higher sales of variable life and other universal life products. Overall lower guaranteed universal life sales are primarily attributable to certain distribution and product design and pricing actions implemented to enhance product mix diversification and in response to the adoption in 2017 of the principles-based reserving method for new guaranteed universal life products.

U.S. Workplace Solutions Division

Retirement

Operating Results

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

|   | Three Months<br>Ended<br>March 31,<br>2018    2017<br>(in millions) |         |
|---|---|---------|
| Operating results(1):   |   |         |
| Revenues  | \$2,089   | \$1,937 |
| Benefits and expenses   | 1,772   | 1,540   |
| Adjusted operating income   | 317   | 397     |
| Realized investment gains (losses), net, and related adjustments                                | (155 )  | 0       |
| Related charges   | (1 )  | (4 )    |
| Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net | (289 )  | 56      |
| Change in experience-rated contractholder liabilities due to asset value changes                | 304   | (24 )   |
| Income (loss) before income taxes and equity in earnings of operating joint ventures            | \$176   | \$425   |

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. From January 1, 2016 through December 31, 2017, the financial results of our Retirement segment included the impact of an intercompany arrangement with our Corporate and Other operations designed to mitigate (1) the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. Effective January 1, 2018 this intercompany arrangement was terminated and the foreign currency exchange rate risk is now managed within our Retirement segment using a strategy that may include external hedges. The impact of the agreement and the termination was not significant to the segment's results. For more information related to this intercompany arrangement, see "—Results of Operations—Impact of Foreign Currency Exchange Rates," above.

#### Adjusted Operating Income

Adjusted operating income decreased \$80 million, primarily driven by lower net investment spread results and higher general and administrative expenses, net of capitalization, partially offset by more favorable reserve experience. The decrease in net investment spread results primarily reflected lower income on non-coupon investments. The increase in general and administrative expenses, net of capitalization, was primarily driven by higher operating expenses, including expenses supporting business growth initiatives. The higher contribution from reserve experience was primarily within our pension risk transfer business.

Revenues, Benefits and Expenses

Revenues, as shown in the table above under “—Operating Results,” increased \$152 million. Premiums increased \$223 million, primarily driven by growth in our pension risk transfer business. This increase in premiums resulted in a corresponding increase in policyholders’ benefits, as discussed below. Net investment income decreased \$65 million, primarily reflecting lower income on non-coupon investments and lower reinvestment rates, partially offset by higher asset balances, including growth in our pension risk transfer business.

Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$232 million. Policyholders’ benefits, including the change in policy reserves, increased \$232 million, primarily related to the increase in premiums discussed above. General and administrative expenses, net of capitalization, increased \$23 million, primarily driven by higher operating expenses, including expenses supporting business growth initiatives. Interest credited to policyholders’ account balances decreased \$25 million, primarily driven by lower income credited to experience-rated account balances.

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## 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 “—Investment Management.”

|  | Three Months Ended<br>March 31, |           | Twelve<br>Months<br>Ended<br>March 31, |
|--|---------------------------------|-----------|--|
|  | 2018                            | 2017      | 2018                                   |
|  | (in millions)                   |           |  |
| <b>Full Service:</b>   |                                 |           |  |
| Beginning total account value  | \$234,616                       | \$202,802 | \$210,400                              |
| Deposits and sales   | 9,922                           | 6,736     | 32,713                                 |
| Withdrawals and benefits   | (8,154 )                        | (6,690 )  | (26,275 )                              |
| Change in market value, interest credited and interest income and other activity | (264 )                          | 7,552     | 19,282                                 |
| Ending total account value   | \$236,120                       | \$210,400 | \$236,120                              |
| Net additions (withdrawals)  | \$1,768                         | \$46      | \$6,438                                |
| <b>Institutional Investment Products:</b>  |                                 |           |  |
| Beginning total account value  | \$194,492                       | \$183,376 | \$185,115                              |
| Additions(1)   | 688                             | 4,042     | 18,276                                 |
| Withdrawals and benefits   | (4,889 )                        | (4,241 )  | (18,054 )                              |
| Change in market value, interest credited and interest income                    | (214 )                          | 1,229     | 3,747                                  |
| Other(2)   | 1,441                           | 709       | 2,434                                  |
| Ending total account value   | \$191,518                       | \$185,115 | \$191,518                              |
| Net additions (withdrawals)  | \$(4,201 )                      | \$(199 )  | \$222                                  |

\_\_\_\_\_ 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 British pounds sterling denominated longevity reinsurance business and changes in asset balances for externally-managed accounts. For (2) the three months ended March 31, 2018, “other” activity also includes \$1,200 million in receipts offset by \$1,165 million in payments 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 March 31, 2018, primarily reflected the favorable changes in the market value of customer funds and net additions from positive net plan sales. The increase in net additions for the three months ended March 31, 2018, compared to the prior year period, was primarily driven by higher large plan sales.

The increase in institutional investment products account values for the twelve months ended March 31, 2018, primarily reflected net additions resulting from pension risk transfer transactions, the impact from foreign currency fluctuations on longevity reinsurance account values and interest credited to customer funds. These increases were partially offset by net withdrawals primarily from investment-only stable value accounts. The increase in net withdrawals for the three months ended March 31, 2018, compared to the prior year period, was primarily driven by higher net withdrawals from investment-only stable value accounts and lower net additions related to pension risk transfer transactions in the current year period.



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## 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<br>Ended<br>March 31,<br>2018      2017<br>(in millions) |   |         |   |
|--|---|---|---------|---|
| Operating results:   |   |   |         |   |
| Revenues   | \$1,416   |   | \$1,383 |   |
| Benefits and expenses  | 1,361   |   | 1,349   |   |
| Adjusted operating income  | 55  |   | 34      |   |
| Realized investment gains (losses), net, and related adjustments                     | (30 )   |   | (5 )    |   |
| Income (loss) before income taxes and equity in earnings of operating joint ventures | \$25  |   | \$29    |   |
| Benefits ratio(1):   |   |   |         |   |
| Group life   | 87.2  | % | 92.2    | % |
| Group disability   | 79.0  | % | 74.3    | % |
| Total Group Insurance  | 85.6  | % | 89.1    | % |
| Administrative operating expense ratio(2):   |   |   |         |   |
| Group life   | 11.6  | % | 10.8    | % |
| Group disability   | 27.1  | % | 29.4    | % |
| Total Group Insurance  | 14.6  | % | 14.2    | % |

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

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

## Adjusted Operating Income

Adjusted operating income increased \$21 million, primarily reflecting more favorable underwriting results in our group life business, partially offset by a lower contribution from net investment spread results driven by lower income on non-coupon investments, higher expenses supporting business growth and modestly less favorable underwriting results in our group disability business. The underwriting results in our group life business reflect more favorable claim experience on non-experience-rated contracts. The underwriting results in our group disability business reflect less favorable claim experience on both short-term and long-term contracts.

## Revenues, Benefits and Expenses

Revenues, as shown in the table above under “—Operating Results,” increased \$33 million. The increase primarily reflected \$47 million of higher premiums and policy charges and fee income driven by increases in new business in both our group disability and group life businesses, partially offset by an \$11 million decrease in net investment income driven by lower income on non-coupon investments.

Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$12 million. The increase reflected an increase in general and administrative expenses, primarily due to higher operating expenses, including expenses supporting business growth.

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.

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|                                      | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in<br>millions) |       |
|--------------------------------------|--|-------|
| Annualized new business premiums(1): |  |       |
| Group life                           | \$243  | \$186 |
| Group disability                     | 140  | 115   |
| Total                                | \$383  | \$301 |

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 March 31, 2018 increased \$82 million compared to the prior year period, reflecting continued growth through sales to new and existing clients in both our group life and group disability businesses.

## Investment Management Division

## Investment Management

## Operating Results

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

|  | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |       |
|--|---|-------|
| Operating results(1):  |   |       |
| Revenues   | \$826   | \$756 |
| Expenses   | 594   | 560   |
| Adjusted operating income  | 232   | 196   |
| Realized investment gains (losses), net, and related adjustments                                     | (12 )   | (1 )  |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (8 )  | 3     |
| Income (loss) before income taxes and equity in earnings of operating joint ventures                 | \$212   | \$198 |

Certain of our Investment 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 Investment Management segment include the impact of an intercompany arrangement with our Corporate and Other operations (1) 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

Adjusted operating income increased \$36 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 growth in the strategic investments portfolio, and higher transaction fees. These increases were partially offset by higher expenses, including expenses supporting business growth.

### Revenues and Expenses

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

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|   | Three<br>Months<br>Ended<br>March 31,<br>2018 | 2017<br><br><br><br>(in<br>millions) |
|---|---|--------------------------------------|
| Revenues by type:                           |   |                                      |
| Asset management fees by source:            |   |                                      |
| Institutional customers                     | \$296   | \$275                                |
| Retail customers(1)                         | 217   | 185                                  |
| General account                             | 120   | 115                                  |
| Total asset management fees                 | 633   | 575                                  |
| Other related revenues by source:           |   |                                      |
| Incentive fees                              | 5   | 7                                    |
| Transaction fees                            | 14  | 7                                    |
| Strategic investing                         | 34  | 22                                   |
| Commercial mortgage(2)                      | 20  | 22                                   |
| Total other related revenues(3)             | 73  | 58                                   |
| Service, distribution and other revenues(4) | 120   | 123                                  |
| Total revenues                              | \$826   | \$756                                |

(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 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 March 31, 2018 and 2017, respectively.

Revenues, as shown in the table above, increased \$70 million. Total asset management fees increased \$58 million, primarily driven by net fixed income inflows and equity market appreciation. Other related revenues increased \$15 million reflecting higher strategic investing results, driven by favorable investment performance and growth in the strategic investments portfolio, and higher transaction fees.

Expenses, as shown in the table above under “—Operating Results,” increased \$34 million, reflecting higher compensation attributable to higher earnings and business growth, in addition to an increase in non-compensation related expenses.

#### Assets Under Management

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



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|  | March<br>31, 2018 | December<br>31, 2017 | March<br>31, 2017 |
|--|-------------------|----------------------|-------------------|
| (in billions)                            |                   |                      |                   |
| Assets Under Management (at fair value): |                   |                      |                   |
| Institutional customers:                 |                   |                      |                   |
| Equity                                   | \$61.2            | \$68.0               | \$61.1            |
| Fixed income                             | 385.4             | 379.4                | 343.8             |
| Real estate                              | 43.0              | 42.1                 | 40.3              |
| Institutional customers(1)               | 489.6             | 489.5                | 445.2             |
| Retail customers:                        |                   |                      |                   |
| Equity                                   | 129.8             | 132.4                | 117.0             |
| Fixed income                             | 114.8             | 111.5                | 98.8              |
| Real estate                              | 1.6               | 1.7                  | 1.8               |
| Retail customers(2)                      | 246.2             | 245.6                | 217.6             |
| General account:                         |                   |                      |                   |
| Equity                                   | 5.7               | 5.8                  | 6.6               |
| Fixed income                             | 412.3             | 412.5                | 397.8             |
| Real estate                              | 2.0               | 1.9                  | 1.7               |
| General account                          | 420.0             | 420.2                | 406.1             |
| Total assets under management            | \$1,155.8         | \$1,155.3            | \$1,068.9         |

(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.

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

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|   | Three Months<br>Ended<br>March 31, |         | Twelve<br>Months<br>Ended<br>March<br>31, |
|---|------------------------------------|---------|---|
|   | 2018                               | 2017    | 2018                                      |
|   | (in billions)                      |         |   |
| <b>Institutional Customers:</b>                               |                                    |         |   |
| Beginning assets under management                             | \$489.5                            | \$431.5 | \$445.2                                   |
| Net additions (withdrawals), excluding money market activity: |                                    |         |   |
| Third-party   | (0.2 )                             | 0.5     | 10.9                                      |
| Third-party via affiliates(1)                                 | (0.7 )                             | (0.4 )  | 2.1                                       |
| Total   | (0.9 )                             | 0.1     | 13.0                                      |
| Market appreciation (depreciation)(3)                         | (1.2 )                             | 10.8    | 30.9                                      |
| Other increases (decreases)(2)                                | 2.2                                | 2.8     | 0.5                                       |
| Ending assets under management                                | \$489.6                            | \$445.2 | \$489.6                                   |
| <b>Retail Customers:</b>                                      |                                    |         |   |
| Beginning assets under management                             | \$245.6                            | \$209.2 | \$217.6                                   |
| Net additions (withdrawals), excluding money market activity: |                                    |         |   |
| Third-party   | 1.0                                | 0.1     | 5.0                                       |
| Third-party via affiliates(1)                                 | (0.2 )                             | (1.9 )  | (0.3 )                                    |
| Total   | 0.8                                | (1.8 )  | 4.7                                       |
| Market appreciation (depreciation)(3)                         | 0.2                                | 10.2    | 24.6                                      |
| Other increases (decreases)(2)                                | (0.4 )                             | 0.0     | (0.7 )                                    |
| Ending assets under management                                | \$246.2                            | \$217.6 | \$246.2                                   |
| <b>General Account:</b>                                       |                                    |         |   |
| Beginning assets under management                             | \$420.2                            | \$399.4 | \$406.1                                   |
| Net additions (withdrawals), excluding money market activity: |                                    |         |   |
| Third-party   | 0.0                                | 0.0     | 0.0                                       |
| Affiliated  | 2.0                                | 3.0     | 2.9                                       |
| Total   | 2.0                                | 3.0     | 2.9                                       |
| Market appreciation (depreciation)(3)                         | (5.1 )                             | 2.7     | 7.2                                       |
| Other increases (decreases)(2)                                | 2.9                                | 1.0     | 3.8                                       |
| Ending assets under management                                | \$420.0                            | \$406.1 | \$420.0                                   |

Represents assets that our Investment Management segment manages for the benefit of other reporting segments (1) within 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 \$5.4 billion and \$5.3 billion for the three months ended March 31, 2018 and 2017, respectively, and a gain of \$4.9 billion for the twelve months ended March 31, 2018.

(3) Includes income reinvestment, where applicable.

**Strategic Investments**

The following table sets forth the strategic investments of the Investment 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.





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|                   | March<br>31,<br>2018 | December<br>31, 2017 |
|-------------------|----------------------|----------------------|
| (in millions)     |                      |                      |
| Co-Investments:   |                      |                      |
| Real estate       | \$197                | \$ 185               |
| Fixed income      | 666                  | 584                  |
| Seed Investments: |                      |                      |
| Real estate       | 47                   | 50                   |
| Public equity     | 705                  | 658                  |
| Fixed income      | 332                  | 309                  |
| Total             | \$1,947              | \$ 1,786             |

The increase in strategic investments was primarily driven by a higher level of investment in collateralized loan obligations and the funding of new mutual funds. As of March 31, 2018, the Company held \$327 million in investments in U.S. collateralized loan obligations required under risk retention rules that were vacated in April 2018.

## International Insurance Division

## International Insurance

## 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 111 yen per U.S. dollar and Korean won at a rate of 1150 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.

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|  | Three Months<br>Ended<br>March 31,<br>2018    2017<br>(in millions) |         |
|--|---|---------|
| Operating results:   |   |         |
| Revenues:  |   |         |
| Life Planner operations  | \$3,078   | \$2,778 |
| Gibraltar Life and Other operations  | 2,962   | 2,631   |
| Total revenues   | 6,040   | 5,409   |
| Benefits and expenses:   |   |         |
| Life Planner operations  | 2,662   | 2,370   |
| Gibraltar Life and Other operations  | 2,522   | 2,240   |
| Total benefits and expenses  | 5,184   | 4,610   |
| Adjusted operating income:   |   |         |
| Life Planner operations  | 416   | 408     |
| Gibraltar Life and Other operations  | 440   | 391     |
| Total adjusted operating income  | 856   | 799     |
| Realized investment gains (losses), net, and related adjustments                                     | (155 )  | 212     |
| Related charges  | 0   | (7 )    |
| Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net      | (114 )  | (12 )   |
| Change in experience-rated contractholder liabilities due to asset value changes                     | 114   | 12      |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (17 )   | (25 )   |
| Income (loss) before income taxes and equity in earnings of operating joint ventures                 | \$684   | \$979   |

## Adjusted Operating Income

Adjusted operating income from our Life Planner operations increased \$8 million, including a net favorable impact of \$1 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding the impact of currency fluctuations, adjusted operating income increased \$7 million, primarily reflecting the growth of business in force in our Japan and Brazil operations. This increase was partially offset by a lower contribution from net investment results primarily from lower income on non-coupon investments and lower reinvestment yields, and higher expenses, including those supporting business growth initiatives.

Adjusted operating income from our Gibraltar Life and Other operations increased \$49 million, including a net favorable impact of \$1 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding the impact of currency fluctuations, adjusted operating income from our Gibraltar Life and Other operations increased \$48 million, primarily reflecting a shift in earnings seasonality resulting from the elimination of the one-month reporting lag for Gibraltar and Other operations (see Note 1 to our Unaudited Interim Consolidated Financial Statements for more information). The increase also reflected the growth of business in force, driven by higher sales of U.S. dollar-denominated products across all distribution channels, and favorable comparative policyholder experience. These favorable impacts were partially offset by a lower contribution from net investment results, primarily from lower income on non-coupon investments, lower net prepayment fee income and lower reinvestment yields. These items were partially offset by higher average invested assets resulting from continued business growth.

## Revenues, Benefits and Expenses

Revenues from our Life Planner operations increased \$300 million, including a net favorable impact of \$100 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased \$200 million. This increase was primarily driven by higher premiums and policy charges and fee income of \$176 million related to the growth of business in force, as discussed above.

Benefits and expenses of our Life Planner operations increased \$292 million, including a net unfavorable impact of \$99 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased \$193 million. Policyholders' benefits, including changes in reserves, increased \$159 million primarily driven by business growth.

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Revenues from our Gibraltar Life and Other operations increased \$331 million, including a net favorable impact of \$81 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased \$250 million. This increase was primarily driven by higher premiums and policy charges and fee income of \$246 million related to a shift in earnings seasonality and the growth of business in force, as discussed above.

Benefits and expenses of our Gibraltar Life and Other operations increased \$282 million, including a net unfavorable impact of \$80 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased \$202 million, driven by an increase of \$194 million in policyholders' benefits, including changes in reserves, related to a shift in earnings seasonality and the growth of business in force, as discussed above.

## Sales Results

The following table sets forth annualized new business premiums, as defined under “—Results of Operations—Segment Measures” above, on an actual and constant exchange rate basis for the periods indicated.

|                                    | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in<br>millions) |       |
|------------------------------------|--|-------|
| Annualized new business premiums:  |  |       |
| On an actual exchange rate basis:  |  |       |
| Life Planner operations(1)         | \$351  | \$464 |
| Gibraltar Life(2)                  | 407  | 427   |
| Total(2)                           | \$758  | \$891 |
| On a constant exchange rate basis: |  |       |
| Life Planner operations            | \$340  | \$464 |
| Gibraltar Life(2)                  | 405  | 430   |
| Total(2)                           | \$745  | \$894 |

(1) Prior period amount has been revised to correct the previously reported amount.

(2) Prior period amounts are presented on a basis consistent with the current period presentation, reflecting the elimination of the one-month reporting lag for Gibraltar and Other operations.

The amount of annualized new business premiums and the sales mix in terms of types and currency denomination of products for any given period can be significantly impacted by several factors, including but not limited to: the 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 interest rates or fluctuations in currency markets (as described below), changes in tax laws, changes in life insurance 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.

Our diverse product portfolio in Japan, in terms of currency mix and premium payment structure, allows us to adapt to changing market and competitive dynamics, including the extremely low interest rate environment. We regularly examine our product offerings and their related profitability and, as a result, we have repriced or discontinued sales of certain products that do not meet our profit expectations. The impact of these actions, coupled with the introduction of certain new products, has generally resulted in an increase in sales of products denominated in U.S. dollars relative to

products denominated in other currencies.

The table below presents annualized new business premiums on a constant exchange rate basis, by product and distribution channel, for the periods indicated.

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|                    | Three Months Ended March 31, 2018 |       |               |         |       | Three Months Ended March 31, 2017 |       |               |         |       |
|--------------------|-----------------------------------|-------|---------------|---------|-------|-----------------------------------|-------|---------------|---------|-------|
|                    | Life & Health<br>(in millions)    |       | Retirement(1) | Annuity | Total | Life & Health                     |       | Retirement(1) | Annuity | Total |
| Life Planner       | \$181                             | \$ 30 | \$ 107        | \$ 22   | \$340 | \$278                             | \$ 36 | \$ 124        | \$ 26   | \$464 |
| Gibraltar Life(2): |                                   |       |               |         |       |                                   |       |               |         |       |
| Life Consultants   | \$76                              | \$ 11 | \$ 29         | \$ 79   | \$195 | \$106                             | \$ 14 | \$ 32         | \$ 36   | \$188 |
| Banks(3)           | 135                               | 0     | 9             | 14      | 158   | 136                               | 0     | 9             | 23      | 168   |
| Independent Agency | 26                                | 3     | 15            | 8       | 52    | 46                                | 6     | 17            | 5       | 74    |
| Subtotal           | 237                               | 14    | 53            | 101     | 405   | 288                               | 20    | 58            | 64      | 430   |
| Total(2)           | \$418                             | \$ 44 | \$ 160        | \$ 123  | \$745 | \$566                             | \$ 56 | \$ 182        | \$ 90   | \$894 |

(1) Includes retirement income, endowment and savings variable universal life.

(2) Prior period amounts are presented on a basis consistent with the current period presentation, reflecting the elimination of the one-month reporting lag for Gibraltar and Other operations.

(3) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 0% and 72%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended March 31, 2018, and 5% and 56%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended March 31, 2017.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased \$124 million, primarily reflecting accelerated sales in our Japan operations in the prior year period in advance of premium rate increases on yen-based products in April of 2017 and lower sales of these yen-based products post repricing. The decrease was partially offset by higher sales of U.S. dollar-denominated products in our Japan operations and higher sales across various product lines in our Brazil operations.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations decreased \$25 million. Life Consultants sales increased \$7 million, primarily reflecting higher sales of U.S. dollar-denominated annuity products, and higher sales of U.S. dollar-denominated life products resulting from the introduction of a new recurring pay life product in the second quarter of 2017. The increase was partially offset by lower sales of yen-denominated whole life and term life products after the April 2017 repricing discussed above. Bank channel sales decreased \$10 million, primarily from lower sales of U.S. dollar- and Australian dollar-denominated annuity products due to increased competition, and lower sales of yen-denominated life products after the April 2017 repricing discussed above. The decrease was partially offset by higher sales of U.S. dollar-denominated life products. Independent Agency sales decreased \$22 million, primarily reflecting lower sales of yen-denominated life products after the April 2017 repricing discussed above, partially offset by higher sales of U.S. dollar-denominated life and annuity products.

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## Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments, and divested businesses other than those that qualify for “discontinued operations” accounting treatment under U.S. GAAP.

|  | Three Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |         |
|--|--|---------|
| Operating results:   |  |         |
| Capital debt interest expense  | \$(181)  | \$(172) |
| Investment income, net of operating debt interest expense  | 27   | 29      |
| Pension and employee benefits  | 40   | 29      |
| Other corporate activities(1)  | (180 )   | (238 )  |
| Adjusted operating income  | (294 )   | (352 )  |
| Realized investment gains (losses), net, and related adjustments                                     | 29   | (213 )  |
| Related charges  | 3  | (1 )    |
| Divested businesses  | (72 )  | 6       |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (1 )   | (6 )    |
| Income (loss) before income taxes and equity in earnings of operating joint ventures                 | \$(335)  | \$(566) |

(1) Includes consolidating adjustments.

The loss from Corporate and Other operations, on an adjusted operating income basis, decreased \$58 million. Net charges from other corporate activities decreased \$58 million, primarily reflecting lower costs for employee compensation plans tied to Company stock and equity market performance. Results from pension and employee benefits increased \$11 million, primarily reflecting higher income from our qualified pension plan, including higher expected earnings on plan assets and lower interest costs on the plan obligation driven by a decline in interest rates in 2017. Capital debt interest expense increased \$9 million, reflecting higher debt balances driven by a junior subordinated debt issuance in the third quarter of 2017, partially offset by senior debt maturities. Results for investment income, net of operating debt interest expense, decreased \$2 million, primarily reflecting lower net investment income driven by the absence of a non-coupon investment gain in the prior year period, partially offset by lower operating debt interest expense.

## Divested Businesses

## Divested Businesses Included in Corporate and Other

Income from our divested businesses includes results from several businesses that have been or will be sold or exited, including businesses that have been placed in wind down status that do not qualify for “discontinued operations” accounting treatment under U.S. GAAP. The results of these divested businesses are reflected in our Corporate and Other operations, but are excluded from adjusted operating income. A summary of the results of the divested businesses reflected in our Corporate and Other operations is as follows for the periods indicated:

Three  
Months  
Ended  
March 31,  
2018 2017



|   |                  |
|---|------------------|
|   | (in<br>millions) |
| Long-Term Care  | \$(73) \$ 8      |
| Other   | 1 (2 )           |
| Total divested businesses income (loss) excluded from adjusted operating income | \$(72) \$ 6      |

Long-Term Care. Results for the first quarter of 2018 decreased compared to the prior year period primarily reflecting higher net realized investment losses driven by the change in market value of derivatives used for duration management. The first quarter of 2018 included \$75 million of net realized investment losses compared to \$3 million in the prior year period.

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## Closed Block Division

The Closed Block division includes certain in force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies (collectively the “Closed Block”), as well as certain related assets and liabilities. We no longer offer these traditional domestic participating policies. See Note 7 to the Unaudited Interim Consolidated Financial Statements for additional details.

Each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. Although Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block division will include any change in our policyholder dividend obligation that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition to the actual policyholder dividends declared by the Board of Directors of Prudential Insurance.

As of March 31, 2018, the excess of actual cumulative earnings over the expected cumulative earnings was \$2,621 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of \$1,812 million at March 31, 2018, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

## Operating Results

The following table sets forth the Closed Block division’s results for the periods indicated.

|  | Three Months<br>Ended<br>March 31,<br>2018    2017<br>(in millions) |         |
|--|---|---------|
| U.S. GAAP results:   |   |         |
| Revenues   | \$1,163   | \$1,557 |
| Benefits and expenses  | 1,172   | 1,523   |
| Income (loss) before income taxes and equity in earnings of operating joint ventures | \$(9)   | \$34    |

## Income (loss) Before Income Taxes and Equity in Earnings of Operating Joint Ventures

Income before income taxes and equity in earnings of operating joint ventures decreased \$43 million. Results for the first quarter of 2018 reflected a \$289 million decrease in net realized investment gains and related activity, primarily due to a decrease in gains on equity securities, unfavorable changes in the value of derivatives used in risk management activities and lower gains from sales of fixed maturities. Net investment income decreased \$52 million, primarily driven by lower reinvestment rates and lower income on non-coupon investments. As a result of the above and other variances, a \$139 million reduction in the policyholder dividend obligation was recorded in the first quarter

of 2018, compared to a \$99 million increase in the first quarter of 2017. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block division, which is primarily due to changes in investment results, may not be offset by changes in the policyholder dividend obligation. For a discussion of Closed Block division realized investment gains (losses), net, see “—Realized Investment Gains and Losses.”

#### Revenues, Benefits and Expenses

Revenues, as shown in the table above under “—U.S. GAAP results,” decreased \$394 million, primarily due to decreases of \$275 million in net realized investment gains and \$52 million in net investment income, as discussed above, as well as a \$53 million decrease in premiums due to a runoff of policies in force.

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Benefits and expenses, as shown in the table above under “—U.S. GAAP results,” decreased \$351 million, primarily due to a \$284 million decrease in dividends to policyholders, reflecting a decrease in the policyholder dividend obligation expense due to changes in cumulative earnings. In addition, policyholders’ benefits, including changes in reserves, decreased \$61 million, primarily due to the runoff of policies in force, as discussed above.

### Income Taxes

For information regarding income taxes, see Note 8 to the Unaudited Interim Consolidated Financial Statements.

### Experience-Rated Contractholder Liabilities,

#### Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments

Certain products included in the Retirement and International Insurance segments are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are carried at fair value. These investments are reflected on the Unaudited Interim Consolidated Statements of Financial Position as “Assets supporting experience-rated contractholder liabilities, at fair value.” Realized and unrealized gains (losses) for these investments are reported in “Other income.” Interest and dividend income for these investments is reported in “Net investment income.” To a lesser extent, these experience-rated products are also supported by derivatives and commercial mortgage and other loans. The derivatives that support these experience-rated products are reflected on the Unaudited Interim Consolidated Statements of Financial Position as “Other invested assets” and are carried at fair value, and the realized and unrealized gains (losses) are reported in “Realized investment gains (losses), net.” The commercial mortgage and other loans that support these experience-rated products are carried at unpaid principal, net of unamortized discounts and an allowance for losses, and are reflected on the Unaudited Interim Consolidated Statements of Financial Position as “Commercial mortgage and other loans.” Gains (losses) on sales and changes in the valuation allowance for commercial mortgage and other loans are reported in “Realized investment gains (losses), net.”

Our Retirement segment has two types of experience-rated products that are supported by assets supporting experience-rated contractholder liabilities and other related investments. Fully participating products are those for which the entire return on underlying investments is passed back to the policyholders through a corresponding adjustment to the related liability, primarily classified in the Unaudited Interim Consolidated Statements of Financial Position as “Policyholders’ account balances.” The adjustment to the liability is based on changes in the fair value of all of the related assets, including commercial mortgage and other loans, which are carried at amortized cost, less any valuation allowance. Partially participating products are those for which only a portion of the return on underlying investments is passed back to the policyholders over time through changes to the contractual crediting rates. The crediting rates are typically reset semiannually, often subject to a minimum crediting rate, and returns are required to be passed back within ten years.

In our International Insurance segment, the experience-rated products are fully participating. As a result, the entire return on the underlying investments is passed back to policyholders through a corresponding adjustment to the related liability.

Adjusted operating income excludes net investment gains (losses) on assets supporting experience-rated contractholder liabilities, related derivatives and commercial mortgage and other loans. This is consistent with the exclusion of realized investment gains (losses) with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains (losses) on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in “Interest credited to

policyholders' account balances." The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

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The following table sets forth the impact on results for the periods indicated of these items that are excluded from adjusted operating income:

|   | Three Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |        |
|---|--|--------|
| Retirement Segment:   |  |        |
| Investment gains (losses) on:   |  |        |
| Assets supporting experience-rated contractholder liabilities, net                              | \$(289)  | \$56   |
| Derivatives   | (37 )  | (21 )  |
| Commercial mortgages and other loans  | 2  | (1 )   |
| Change in experience-rated contractholder liabilities due to asset value changes(1)(2)          | 304  | (24 )  |
| Net gains (losses)  | \$(20 )  | \$10   |
| International Insurance Segment:  |  |        |
| Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net | \$(114)  | \$(12) |
| Change in experience-rated contractholder liabilities due to asset value changes                | 114  | 12     |
| Net gains (losses)  | \$0  | \$0    |
| Total:  |  |        |
| Investment gains (losses) on:   |  |        |
| Assets supporting experience-rated contractholder liabilities, net                              | \$(403)  | \$44   |
| Derivatives   | (37 )  | (21 )  |
| Commercial mortgages and other loans  | 2  | (1 )   |
| Change in experience-rated contractholder liabilities due to asset value changes(1)(2)          | 418  | (12 )  |
| Net gains (losses)  | \$(20 )  | \$10   |

(1) Decreases to contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of \$61 million and \$1 million as of March 31, 2018 and 2017, respectively. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

(2) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are a decrease of \$17 million and an increase of less than \$1 million for the three months ended March 31, 2018 and 2017, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

The net impacts, for the Retirement segment, of changes in experience-rated contractholder liabilities and investment gains (losses) on assets supporting experience-rated contractholder liabilities and other related investments reflect timing differences between the recognition of the mark-to-market adjustments and the recognition of the recovery of these adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities for partially participating products. These impacts also reflect the difference between the fair value of the underlying commercial mortgages and other loans and the amortized cost, less any valuation allowance, of these loans, as described above.

## Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value measurement establishes a framework that includes a three-level hierarchy used to classify the inputs used in measuring fair value. The level in the hierarchy within which the fair value falls is determined based on the lowest level input that is significant to the measurement. The fair values of assets and liabilities classified as Level 3 include at least one significant unobservable input in the measurement. See Note 6 to the Unaudited Interim Consolidated Financial Statements for an additional description of the valuation hierarchy levels as well as for the balances of assets and liabilities measured at fair value on a recurring basis by hierarchy level presented on a consolidated basis.

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The table below presents the balances of assets and liabilities measured at fair value on a recurring basis, as of the periods indicated, and the portion of such assets and liabilities that are classified in Level 3 of the valuation hierarchy. The table also provides details about these assets and liabilities excluding those held in the Closed Block division. We believe the amounts excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 7 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

|  | As of March 31, 2018                      |                                      |                          |                                      | As of December 31, 2017                   |                                      |                          |         |
|--|---|--------------------------------------|--------------------------|--------------------------------------|---|--------------------------------------|--------------------------|---------|
|  | PFI excluding<br>Closed Block<br>Division |                                      | Closed Block<br>Division |                                      | PFI excluding<br>Closed Block<br>Division |                                      | Closed Block<br>Division |         |
| Total at<br>Fair<br>Value<br>(in millions)                       | Total<br>Level 3(1)                       | Total at<br>Fair Value<br>Level 3(1) | Total<br>Level 3(1)      | Total at<br>Fair Value<br>Level 3(1) | Total<br>Level 3(1)                       | Total at<br>Fair Value<br>Level 3(1) | Total<br>Level 3(1)      |         |
| Fixed maturities, available-for-sale                             | \$307,563                                 | \$7,818                              | \$40,067                 | \$2,008                              | \$305,518                                 | \$7,557                              | \$41,262                 | \$2,139 |
| Assets supporting experience-rated contractholder liabilities:   |   |                                      |                          |                                      |   |                                      |                          |         |
| Fixed maturities   | 19,834                                    | 1,352                                | 0                        | 0                                    | 20,209                                    | 1,408                                | 0                        | 0       |
| Equity securities  | 1,652                                     | 5                                    | 0                        | 0                                    | 1,643                                     | 4                                    | 0                        | 0       |
| All other(2)   | 23  | 7                                    | 0                        | 0                                    | 137                                       | 7                                    | 0                        | 0       |
| Subtotal   | 21,509                                    | 1,364                                | 0                        | 0                                    | 21,989                                    | 1,419                                | 0                        | 0       |
| Fixed maturities trading   | 2,680                                     | 203                                  | 205                      | 1                                    | 3,307                                     | 155                                  | 200                      | 1       |
| Equity securities  | 4,980                                     | 704                                  | 2,309                    | 81                                   | 4,855                                     | 712                                  | 2,479                    | 83      |
| Commercial mortgage and other loans                              | 298                                       | 0                                    | 0                        | 0                                    | 593                                       | 0                                    | 0                        | 0       |
| Other invested assets(3)   | 1,346                                     | 144                                  | 4                        | 0                                    | 1,330                                     | 137                                  | 2                        | 0       |
| Short-term investments   | 4,020                                     | 10                                   | 273                      | 0                                    | 5,351                                     | 8                                    | 436                      | 0       |
| Cash equivalents   | 5,677                                     | 0                                    | 918                      | 0                                    | 7,722                                     | 0                                    | 577                      | 0       |
| Other assets   | 3   | 0                                    | 0                        | 0                                    | 14  | 13                                   | 0                        | 0       |
| Separate account assets  | 275,066                                   | 2,360                                | 0                        | 0                                    | 280,393                                   | 2,122                                | 0                        | 0       |
| Total assets   | \$623,142                                 | \$12,603                             | \$43,776                 | \$2,090                              | \$631,072                                 | \$12,123                             | \$44,956                 | \$2,223 |
| Future policy benefits   | \$6,981                                   | \$6,981                              | \$0                      | \$0                                  | \$8,720                                   | \$8,720                              | \$0                      | \$0     |
| Other liabilities(3)   | 1,310                                     | 56                                   | 0                        | 0                                    | 688                                       | 50                                   | 0                        | 0       |
| Notes issued by consolidated variable interest entities (“VIEs”) | 612                                       | 612                                  | 0                        | 0                                    | 1,196                                     | 1,196                                | 0                        | 0       |
| Total liabilities  | \$8,903                                   | \$7,649                              | \$0                      | \$0                                  | \$10,604                                  | \$9,966                              | \$0                      | \$0     |

Level 3 assets expressed as a percentage of total assets measured at fair value on a recurring basis for PFI (1)excluding the Closed Block division and for the Closed Block division totaled 2.0% and 4.8%, respectively, as of March 31, 2018, and 1.9% and 4.9%, respectively, as of December 31, 2017.

(2)“All other” represents cash equivalents and short-term investments.

(3)“Other invested assets” and “Other liabilities” primarily include derivatives. The amounts include the impact of netting subject to master netting agreements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations and may require the application of a greater



degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. The following sections provide information regarding certain assets and liabilities which are valued using Level 3 inputs and could have a significant impact on our results of operations.

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## Fixed Maturity and Equity Securities

Fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or indicative broker quotes. For certain private fixed maturity and equity securities, the internal valuation models use significant unobservable inputs and, accordingly, such securities are included in Level 3 in our fair value hierarchy. Level 3 fixed maturity securities for PFI excluding the Closed Block division included approximately \$6.8 billion of public fixed maturities as of March 31, 2018, with values primarily based on indicative broker quotes, and approximately \$2.6 billion of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific spread adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. These inputs are usually considered unobservable, as not all market participants have access to this data.

The impact that fair value changes of fixed maturity securities (and equity securities prior to January 1, 2018) have on the results of operations is dependent on the classification of the security as trading, available-for-sale, or held-to-maturity. For investments classified as trading, changes in fair value are recorded within “Other income.” For investments classified as available-for-sale, changes in fair value are recorded as an unrealized gain or loss in AOCI, a separate component of equity. Investments classified as held-to-maturity are carried at amortized cost and the changes in fair value have no impact on the results of operations. Effective January 1, 2018, as a result of the adoption of ASU 2016-01, the classifications above no longer apply to equity securities and changes in fair value are recorded within “Other Income.”

## Separate Account Assets

Separate account assets included in Level 3 primarily include corporate securities and commercial mortgage loans. The valuation of corporate securities is determined as described above for fixed maturity and equity securities. See Note 6 to the Unaudited Interim Consolidated Financial Statements for additional information on the valuation of commercial mortgage loans. Separate account liabilities are reported at contract value and not at fair value.

## Variable Annuity Living Benefit Features

Future policy benefits classified in Level 3 primarily include liabilities related to guarantees associated with the living benefit features of certain variable annuity contracts offered by our Individual Annuities segment, including guaranteed minimum accumulation benefits (“GMAB”), guaranteed minimum withdrawal benefits (“GMWB”) and guaranteed minimum income and withdrawal benefits (“GMIWB”). These benefits are accounted for as embedded derivatives and carried at fair value with changes in fair value included in “Realized investment gains (losses), net.” The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of future rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, based on capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. These models utilize significant assumptions that are primarily unobservable, including assumptions as to lapse rates, NPR, utilization rates, withdrawal rates, mortality rates and equity market volatility. Future policy benefits classified as Level 3 for PFI excluding the Closed Block division were a net liability of \$7.0 billion as of March 31, 2018. For additional information, see “—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities.”

## Notes Issued by Consolidated VIEs

As discussed in Note 4 to the Unaudited Interim Consolidated Financial Statements, notes issued by consolidated VIEs represent non-recourse notes issued by certain asset-backed investment vehicles, primarily collateralized loan obligations, which we are required to consolidate. We have elected the fair value option for these notes, which are valued based on corresponding bank loan collateral.

For additional information about the key estimates and assumptions used in our determination of fair value, see Note 6 to the Unaudited Interim Consolidated Financial Statements.

#### Realized Investment Gains and Losses

Realized investment gains and losses are generated from numerous sources, including the following significant items:

- sales of investments;
- maturities of foreign-denominated investments;
- adjustments to the cost basis of investments for OTTI;

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• recognition of OTTI in earnings for foreign-denominated securities that are approaching maturity and are in an unrealized loss position due to foreign currency exchange rate movements;

• net changes in the allowance for losses, certain restructurings and foreclosures on commercial mortgage and other loans; and

• fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment.

The level of OTTI generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of OTTI have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. We may also realize additional credit and interest rate-related losses through sales of investments pursuant to our credit risk and portfolio management objectives. For additional information regarding our OTTI policies for fixed maturity securities, see Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

We use interest rate and currency derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. We also use derivative contracts to mitigate the risk that unfavorable changes in currency exchange rates will materially affect U.S. dollar-equivalent earnings generated by certain of our non-U.S. businesses. In addition, equity-based and interest rate derivatives hedge a portion of the risks embedded in certain variable annuity products with optional living benefit guarantees. Many of these derivative contracts do not qualify for hedge accounting; and consequently, we recognize the changes in fair value of such contracts from period to period in current earnings, although the required accounting for associated assets and liabilities may or may not be similar.

Accordingly, realized investment gains and losses from our derivative activities can contribute significantly to fluctuations in net income. For a further discussion of living benefit guarantees and related hedge positions in our Individual Annuities segment, see “—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities” above.

Adjusted operating income generally excludes “Realized investment gains (losses), net,” subject to certain exceptions. These exceptions primarily include realized investment gains or losses within certain of our businesses for which such gains or losses are a principal source of earnings, gains or losses associated with terminating hedges of foreign currency earnings and current period yield adjustments and related charges and adjustments. OTTI, interest rate-related losses and credit-related losses on sales (other than those related to certain of our businesses which primarily originate investments for sale or syndication to unrelated investors) are excluded from adjusted operating income. Additionally, adjusted operating income generally excludes realized investment gains and losses from products that contain embedded derivatives and from associated derivative portfolios that are part of an asset-liability management program related to the risk of those products. However, the effectiveness of the hedging program will ultimately be reflected in adjusted operating income over time. For additional details regarding adjusted operating income, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

Effective January 1, 2018, the Company adopted ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities which impacted the Company’s accounting and presentation related to equity investments. For additional details regarding the adoption of ASU 2016-01, see Note 2 to the Unaudited Interim Consolidated Financial Statements.

The following table sets forth “Realized investment gains (losses), net,” by investment type as well as related charges and adjustments, for the periods indicated:



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|  | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |        |
|--|---|--------|
| Realized investment gains (losses), net:                                     |   |        |
| PFI excluding Closed Block division  | \$427   | \$154  |
| Closed Block division  | (2 )  | 273    |
| Consolidated realized investment gains (losses), net                         | \$425   | \$427  |
| PFI excluding Closed Block Division:   |   |        |
| Realized investment gains (losses), net:                                     |   |        |
| Fixed maturity securities(1)   | \$51  | \$134  |
| Equity securities(2)   | 0   | 26     |
| Commercial mortgage and other loans  | 11  | 13     |
| Derivative instruments   | 358   | (20 )  |
| Other  | 7   | 1      |
| Total  | \$427   | \$154  |
| Related adjustments  | (340 )  | (220 ) |
| Realized investment gains (losses), net, and related adjustments             | 87  | (66 )  |
| Related charges  | (23 )   | 104    |
| Realized investment gains (losses), net, and related charges and adjustments | \$64  | \$38   |
| Closed Block Division:   |   |        |
| Realized investment gains (losses), net:                                     |   |        |
| Fixed maturity securities(1)   | \$27  | \$40   |
| Equity securities(2)   | 0   | 230    |
| Commercial mortgage and other loans  | 1   | 1      |
| Derivative instruments   | (30 )   | 9      |
| Other  | 0   | (7 )   |
| Total  | \$(2 )  | \$273  |

(1) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading.

(2) Effective January 1, 2018, realized gains (losses) on equity securities are recorded within "Other income."

PFI excluding Closed Block Division—Realized Investments Gains (Losses)

The following table sets forth net realized gains (losses) on fixed maturity securities (excluding securities classified as trading), for the periods indicated:

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|   | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |        |
|---|---|--------|
| Gross realized investment gains:  |   |        |
| Gross gains on sales and maturities                                     | \$ 301  | \$ 310 |
| Gross realized investment losses:                                       |   |        |
| Net OTTI recognized in earnings(1)                                      | (31 )   | (31 )  |
| Gross losses on sales and maturities                                    | (219 )  | (144 ) |
| Credit-related losses on sales  | 0   | (1 )   |
| Total gross realized investment losses                                  | (250 )  | (176 ) |
| Realized investment gains (losses), net—Fixed Maturity Securities       | \$ 51   | \$ 134 |
| Net gains (losses) on sales and maturities—Fixed Maturity Securities(2) | \$ 82   | \$ 166 |

(1) Excludes the portion of OTTI recorded in OCI, representing any difference 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.

(2) Amounts exclude OTTI and credit-related losses through sales of investments due to expected near-term credit conditions of an underlying issuer.

Net gains on sales and maturities of fixed maturity securities were \$82 million and \$166 million for the first quarter of 2018 and 2017, respectively, primarily driven by sales and maturities of U.S. and Australian dollar-denominated securities within our International Insurance segment. See below for additional information regarding OTTI of fixed maturity securities.

Net realized gains on equity securities were \$26 million for the first quarter of 2017, primarily driven by net gains on sales of equity securities of \$31 million, offset by OTTI of \$5 million.

Net realized gains on commercial mortgage and other loans were \$11 million and \$13 million for the first quarter of 2018 and 2017, respectively, primarily driven by net gains on originated mortgage servicing rights in our Investment Management business. For additional information regarding our allowance for losses, see “—General Account Investments—Commercial Mortgage and Other Loans—Commercial Mortgage and Other Loans Quality.”

Net realized gains on derivatives were \$358 million for the first quarter of 2018, compared to net realized losses of \$20 million for the first quarter of 2017. The net derivative gains for the first quarter of 2018 reflected gains of \$769 million on product-related embedded derivatives and related hedges mainly associated with certain variable annuity contracts; net gains of \$242 million on currency derivatives primarily in Japanese insurance operations used to hedge non-yen denominated investments as the Japanese yen strengthened against various currencies; and net gains of \$44 million primarily representing the fees earned on fee-based synthetic guaranteed investment contracts (“GICs”), which are accounted for as derivatives. Partially offsetting these gains were net losses of \$363 million on interest rate derivatives used to manage duration as swap rates and U.S. Treasury rates increased and net losses of \$348 million on foreign currency derivatives used to hedge foreign-denominated investments as the U.S. dollar weakened against various currencies. The net derivative losses for the first quarter of 2017 primarily reflected \$169 million of losses on foreign currency derivatives used to hedge foreign-denominated investments as the U.S. weakened against various currencies. Partially offsetting these losses were \$117 million of gains on currency derivatives primarily in Japanese insurance operations used to hedge non-yen denominated investments as the Japanese yen strengthened against various currencies and \$39 million of gains primarily representing the fees earned on fee-based synthetic GICs.

Related adjustments include the portions of “Realized investment gains (losses), net” that are included in adjusted operating income and the portions of “Other income” and “Net investment income” that are excluded from adjusted operating income. These adjustments are made to arrive at “Realized investment gains (losses), net, and related adjustments” which are excluded from adjusted operating income. Results for the first quarter of 2018 included net negative related adjustments of \$340 million, compared to \$220 million for the first quarter of 2017. Results for both periods were primarily driven by the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities within the International Insurance segment, for which the majority of the foreign currency exposure is hedged and offset in “Realized Investment gains (losses), net.” Results for the first quarter of 2017 were also driven by settlements on interest rate and currency derivatives.

Charges that relate to “Realized investment gains (losses), net” are also excluded from adjusted operating income and may be reflected as net charges or net benefits. Results for the first quarter of 2018 included a net related charge of \$23 million, compared to a net related benefit of \$104 million for the first quarter of 2017. Both periods’ results were driven by the impact of derivative activity on the amortization of DAC and other costs and certain policyholder reserves.



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## PFI excluding Closed Block Division—OTTI

The following tables set forth the composition of OTTI recorded in earnings attributable to PFI excluding the Closed Block division by investment type and for fixed maturity securities by reason, for the periods indicated:

|                                    | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in<br>millions) |       |
|------------------------------------|--|-------|
| Public fixed maturity securities   | \$ 15  | \$ 4  |
| Private fixed maturity securities  | 16   | 27    |
| Total fixed maturity securities(1) | 31   | 31    |
| Equity securities(2)               | 0  | 5     |
| Other invested assets(3)           | 3  | 4     |
| Total(4)                           | \$ 34  | \$ 40 |

(1) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading.

(2) Effective January 1, 2018, the identification of OTTI for equity securities is no longer needed as all of these investments are now measured at fair value with changes in fair value reported in earnings.

(3) Primarily includes OTTI related to investments in limited partnerships and limited liability companies and real estate held through direct ownership.

(4) Excludes amounts remaining in OCI from previously impaired investments, representing any difference 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.

|   | Three<br>Months<br>Ended<br>March 31,<br>2018 2017<br>(in<br>millions) |       |
|---|--|-------|
| Due to foreign exchange rate movements on securities approaching maturity | \$ 8   | \$ 21 |
| Due to securities actively marketed for sale                              | 8  | 1     |
| Due to credit events or adverse conditions of the respective issuer(1)    | 15   | 9     |
| Total fixed maturity securities(2)(3)                                     | \$ 31  | \$ 31 |

Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused or will lead to a deficiency in the contractual cash flows related to the investment. The amount of the (1) impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

(2) Excludes amounts remaining in OCI from previously impaired investments, representing any difference 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 fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading.

Fixed maturity security OTTI in the first quarter of 2018 were concentrated in the communications, energy and industrial other sectors within corporate securities and were related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity security OTTI in the first quarter of 2017 were concentrated in the finance, energy and capital goods sectors within corporate securities and were related to securities approaching maturity with losses from foreign currency exchange rate movements which were primarily hedged with derivatives that had an offsetting realized gain.

Equity security OTTI in the first quarter of 2017 were primarily driven by the extent and duration of declines in values.

Closed Block Division—Realized Investments Gains (Losses) and OTTI

Net realized gains on fixed maturity securities of \$27 million for the first quarter of 2018 were primarily due to net gains of \$35 million on sales and maturities, partially offset by OTTI of \$8 million. Net realized gains on fixed maturity securities of \$40 million for the first quarter of 2017 were primarily due to net gains of \$63 million on sales and maturities, partially offset by OTTI of \$23 million.

Net realized gains on equity securities were \$230 million for the first quarter of 2017, primarily driven by net gains on sales of equity securities of \$231 million, offset by OTTI of \$1 million.

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Net realized losses on derivatives were \$30 million for the first quarter of 2018, compared to net realized gains of \$9 million for the first quarter of 2017. The net derivative losses for the first quarter of 2018 primarily reflected losses of \$43 million on currency derivatives used to hedge foreign-denominated investments as the U.S. dollar weakened against various currencies. Partially offsetting the losses were gains of \$13 million on net short interest rate derivatives used to manage duration as swap rates increased. The net derivative gains for the first quarter of 2017 primarily reflected gains of \$8 million on net-long Treasury futures used to manage duration as treasury rates decreased.

## General Account Investments

## Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, policy loans and non-coupon investments, which include equity securities and other invested assets such as Limited Partnerships and Limited Liability Companies (“LPs/LLCs”), real estate held through direct ownership, derivative instruments and seed money investments in separate accounts. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our Investment Management segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor.

The following tables set forth the composition of the investments of our general account apportioned between PFI excluding the Closed Block division and the Closed Block division, as of the dates indicated:

|  | March 31, 2018   |        |              |           |
|--|------------------|--------|--------------|-----------|
|  | PFI Excluding    |        | Closed Block | Total     |
|  | Closed Block     |        | Division     |           |
|  | Division         |        |              |           |
|  | (\$ in millions) |        |              |           |
| Fixed maturities:  |                  |        |              |           |
| Public, available-for-sale, at fair value                                    | \$262,211        | 64.6 % | \$ 26,521    | \$288,732 |
| Public, held-to-maturity, at amortized cost                                  | 1,822            | 0.4    | 0            | 1,822     |
| Private, available-for-sale, at fair value                                   | 44,671           | 11.0   | 13,546       | 58,217    |
| Private, held-to-maturity, at amortized cost                                 | 298              | 0.1    | 0            | 298       |
| Fixed maturities, trading, at fair value                                     | 1,508            | 0.4    | 205          | 1,713     |
| Assets supporting experience-rated contractholder liabilities, at fair value | 21,637           | 5.3    | 0            | 21,637    |
| Equity securities, at fair value   | 4,404            | 1.1    | 2,309        | 6,713     |
| Commercial mortgage and other loans, at book value                           | 48,733           | 12.0   | 9,027        | 57,760    |
| Policy loans, at outstanding balance   | 7,541            | 1.9    | 4,495        | 12,036    |
| Other invested assets(1)   | 7,818            | 1.9    | 3,407        | 11,225    |
| Short-term investments   | 5,308            | 1.3    | 413          | 5,721     |
| Total general account investments  | 405,951          | 100.0% | 59,923       | 465,874   |
| Invested assets of other entities and operations(2)                          | 5,617            |        | 0            | 5,617     |
| Total investments  | \$411,568        |        | \$ 59,923    | \$471,491 |

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|  | December 31, 2017   |        |                          |           |
|--|---|--------|--------------------------|-----------|
|  | PFI Excluding<br>Closed Block<br>Division<br>(\$ in millions) |        | Closed Block<br>Division | Total     |
| Fixed maturities:  |   |        |                          |           |
| Public, available-for-sale, at fair value                                    | \$260,430   | 64.7 % | \$ 27,448                | \$287,878 |
| Public, held-to-maturity, at amortized cost                                  | 1,747   | 0.4    | 0                        | 1,747     |
| Private, available-for-sale, at fair value                                   | 44,479  | 11.1   | 13,814                   | 58,293    |
| Private, held-to-maturity, at amortized cost                                 | 302   | 0.1    | 0                        | 302       |
| Fixed maturities, trading, at fair value                                     | 1,589   | 0.4    | 200                      | 1,789     |
| Assets supporting experience-rated contractholder liabilities, at fair value | 22,097  | 5.5    | 0                        | 22,097    |
| Equity securities, at fair value   | 4,276   | 1.1    | 2,479                    | 6,755     |
| Commercial mortgage and other loans, at book value                           | 46,394  | 11.5   | 9,017                    | 55,411    |
| Policy loans, at outstanding balance   | 7,348   | 1.8    | 4,543                    | 11,891    |
| Other invested assets(1)   | 7,510   | 1.9    | 3,159                    | 10,669    |
| Short-term investments   | 6,103   | 1.5    | 631                      | 6,734     |
| Total general account investments  | 402,275   | 100.0% | 61,291                   | 463,566   |
| Invested assets of other entities and operations(2)                          | 6,305   |        | 0                        | 6,305     |
| Total investments(3)   | \$408,580   |        | \$ 61,291                | \$469,871 |

Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, (1) derivative instruments and other miscellaneous investments. For additional information regarding these investments, see “—Other Invested Assets” below.

(2) Includes invested assets of our investment management and derivative operations. Excludes assets of our investment management operations that are managed for third-parties and those assets classified as “Separate account assets” on our balance sheet. For additional information regarding these investments, see “—Invested Assets of Other Entities and Operations” below.

(3) Prior period amounts have been reclassified to conform to current period presentation. For additional information, see Note 2 to the Unaudited Interim Consolidated Financial Statements.

The increase in general account investments attributable to PFI excluding the Closed Block division in the first three months of 2018 was primarily due to net business inflows, the translation impact of the yen strengthening against the U.S. dollar and the reinvestment of net investment income, partially offset by an increase in rates and credit spread widening. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 6 to the Unaudited Interim Consolidated Financial Statements.

As of March 31, 2018 and December 31, 2017, 43% and 42%, respectively, of our general account investments attributable to PFI excluding the Closed Block division related to our Japanese insurance operations. The following table sets forth the composition of the investments of our Japanese insurance operations’ general account, as of the dates indicated:

|  | March<br>31, 2018 | December<br>31, 2017 |
|--|-------------------|----------------------|
|  | (in millions)     |                      |
| Fixed maturities:                            |                   |                      |
| Public, available-for-sale, at fair value    | \$133,161         | \$128,332            |
| Public, held-to-maturity, at amortized cost  | 1,822             | 1,747                |
| Private, available-for-sale, at fair value   | 14,748            | 14,538               |
| Private, held-to-maturity, at amortized cost | 298               | 302                  |

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|  |           |           |
|--|-----------|-----------|
| Fixed maturities, trading, at fair value                                     | 255       | 257       |
| Assets supporting experience-rated contractholder liabilities, at fair value | 2,641     | 2,586     |
| Equity securities, at fair value   | 2,194     | 2,151     |
| Commercial mortgage and other loans, at book value                           | 15,661    | 14,268    |
| Policy loans, at outstanding balance   | 2,693     | 2,545     |
| Other invested assets(1)   | 1,995     | 2,021     |
| Short-term investments   | 351       | 244       |
| Total Japanese general account investments(2)                                | \$175,819 | \$168,991 |

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- (1) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments.
- (2) Prior period amounts have been reclassified to conform to current period presentation. For additional information, see Note 2 to the Unaudited Interim Consolidated Financial Statements.

The increase in general account investments related to our Japanese insurance operations in the first three months of 2018 was primarily attributable to the reinvestment of net investment income, net business inflows and the translation impact of the yen strengthening against the U.S. dollar.

As of March 31, 2018, our Japanese insurance operations had \$63.0 billion, at carrying value, of investments denominated in U.S. dollars, including \$5.5 billion that were hedged to yen through third-party derivative contracts and \$44.8 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. As of December 31, 2017, our Japanese insurance operations had \$62.6 billion, at carrying value, of investments denominated in U.S. dollars, including \$5.8 billion that were hedged to yen through third-party derivative contracts and \$43.8 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. The \$0.4 billion increase in the carrying value of U.S. dollar-denominated investments from December 31, 2017 was primarily attributable to portfolio growth as a result of net business inflows and the reinvestment of net investment income.

Our Japanese insurance operations had \$11.5 billion and \$11.4 billion, at carrying value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of March 31, 2018 and December 31, 2017, respectively. The \$0.1 billion increase in the carrying value of Australian dollar-denominated investments from December 31, 2017 was primarily attributable to the translation impact of the Australian dollar strengthening against the U.S. dollar. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations and a discussion of our yen hedging strategy, see “—Results of Operations by Segment-Impact of Foreign Currency Exchange Rates” above.

## Investment Results

The following tables set forth the investment results of our general account apportioned between PFI excluding the Closed Block division and the Closed Block division, for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest-related items, such as settlements of duration management swaps which are included in “Realized investment gains (losses), net.”

|   | Three Months Ended March 31, 2018                                       |         |                                     |        |   |         |                             |         |
|---|---|---------|-------------------------------------|--------|---|---------|-----------------------------|---------|
|   | PFI Excluding<br>Closed Block<br>Division and<br>Japanese<br>Operations |         | Japanese<br>Insurance<br>Operations |        | PFI Excluding<br>Closed Block<br>Division |         | Closed<br>Block<br>Division |         |
|   | Yield(1)  | Amount  | Yield(1)                            | Amount | Yield(1)                                  | Amount  | Amount                      | Amount  |
|   | (\$ in millions)  |         |                                     |        |   |         |                             |         |
| Fixed maturities(2)   | 4.56 %  | \$1,702 | 2.93 %                              | \$923  | 3.82 %                                    | \$2,625 | \$ 424                      | \$3,049 |
| Assets supporting experience-rated contractholder liabilities | 3.61  | 173     | 2.72                                | 18     | 3.50                                      | 191     | 0                           | 191     |
| Equity securities   | 1.78  | 10      | 1.56                                | 8      | 1.67                                      | 18      | 10                          | 28      |
| Commercial mortgage and other loans                           | 3.94  | 319     | 3.84                                | 143    | 3.91                                      | 462     | 103                         | 565     |
| Policy loans  | 5.26  | 63      | 3.80                                | 25     | 4.74                                      | 88      | 64                          | 152     |

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|  |        |         |        |         |        |         |        |         |
|--|--------|---------|--------|---------|--------|---------|--------|---------|
| Short-term investments and cash equivalents            | 1.66   | 54      | 1.47   | 7       | 1.64   | 61      | 8      | 69      |
| Other invested assets(2)                               | 3.10   | 54      | 4.60   | 27      | 3.47   | 81      | 33     | 114     |
| Gross investment income                                | 4.19   | 2,375   | 3.03   | 1,151   | 3.72   | 3,526   | 642    | 4,168   |
| Investment expenses                                    | (0.14) | (86 )   | (0.12) | (53 )   | (0.13) | (139 )  | (49 )  | (188 )  |
| Investment income after investment expenses            | 4.05 % | 2,289   | 2.91 % | 1,098   | 3.59 % | 3,387   | 593    | 3,980   |
| Investment results of other entities and operations(3) |        | 18      |        | 0       |        | 18      | 0      | 18      |
| Total investment income                                |        | \$2,307 |        | \$1,098 |        | \$3,405 | \$ 593 | \$3,998 |

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|  | Three Months Ended March 31, 2017                                       |         |                                     |         |   |         |                             |          |
|--|---|---------|-------------------------------------|---------|---|---------|-----------------------------|----------|
|  | PFI Excluding<br>Closed Block<br>Division and<br>Japanese<br>Operations |         | Japanese<br>Insurance<br>Operations |         | PFI Excluding<br>Closed Block<br>Division |         | Closed<br>Block<br>Division | Total(4) |
|  | Yield(1)  | Amount  | Yield(1)                            | Amount  | Yield(1)                                  | Amount  | Amount                      | Amount   |
|  | (\$ in millions)  |         |                                     |         |   |         |                             |          |
| Fixed maturities(2)  | 4.51 %  | \$1,581 | 3.02 %                              | \$876   | 3.84 %                                    | \$2,457 | \$ 428                      | \$2,885  |
| Assets supporting experience-rated<br>contractholder liabilities | 3.69  | 180     | 2.67                                | 15      | 3.59                                      | 195     | 0                           | 195      |
| Equity securities  | 4.73  | 57      | 1.99                                | 15      | 3.69                                      | 72      | 14                          | 86       |
| Commercial mortgage and other loans                              | 3.96  | 309     | 3.91                                | 117     | 3.95                                      | 426     | 107                         | 533      |
| Policy loans   | 5.26  | 63      | 3.86                                | 23      | 4.79                                      | 86      | 67                          | 153      |
| Short-term investments and cash<br>equivalents                   | 1.18  | 32      | 1.24                                | 3       | 1.18                                      | 35      | 7                           | 42       |
| Other invested assets(2)   | 11.62   | 199     | 9.35                                | 34      | 11.22                                     | 233     | 63                          | 296      |
| Gross investment income  | 4.46  | 2,421   | 3.15                                | 1,083   | 3.95                                      | 3,504   | 686                         | 4,190    |
| Investment expenses  | (0.14 )   | (70 )   | (0.12)                              | (43 )   | (0.13 )                                   | (113 )  | (41 )                       | (154 )   |
| Investment income after investment<br>expenses                   | 4.32 %  | 2,351   | 3.03 %                              | 1,040   | 3.82 %                                    | 3,391   | 645                         | 4,036    |
| Investment results of other entities and<br>operations(3)        |   | 25      |                                     | 0       |   | 25      | 0                           | 25       |
| Total investment income  |   | \$2,376 |                                     | \$1,040 |   | \$3,416 | \$ 645                      | \$4,061  |

- Yields are annualized, for interim periods, and are based on quarterly average carrying values except for fixed maturities and securities lending activity. Yields for fixed maturities are based on quarterly average amortized cost.
- (1) Yields for fixed maturities, short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period yields have been revised to conform with current period presentation.
- (2) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading, which are included in Other invested assets.
- (3) Includes net investment income of our investment management operations and derivative operations.
- (4) The total yield was 3.69% and 3.94% for the three months ended March 31, 2018 and 2017, respectively.

The decrease in net investment income yield attributable to our general account investments, excluding both the Closed Block division and the Japanese insurance operations' portfolio, for the three months ended March 31, 2018, compared to the three months ended March 31, 2017, was primarily the result of lower yields from non-coupon investments and lower fixed maturity prepayment fees and call premiums.

The decrease in net investment income yield on the Japanese insurance operations' portfolio, for the three months ended March 31, 2018, compared to the three months ended March 31, 2017, was primarily attributable to lower fixed income reinvestment rates and lower yields from non-coupon investments.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$43.4 billion and \$39.9 billion for the three months ended March 31, 2018 and 2017, respectively. The majority of U.S. dollar-denominated fixed maturities



support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$10.5 billion and \$10.2 billion for the three months ended March 31, 2018 and 2017, respectively. The Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see “—Results of Operations by Segment-Impact of Foreign Currency Exchange Rates” above.

## Retail-Related Investments

As of March 31, 2018, PFI excluding the Closed Block division had retail-related investments of approximately \$14 billion consisting primarily of \$6 billion of corporate fixed maturities of which 89% were considered investment grade; \$7 billion of commercial mortgage loans with a weighted-average loan-to-value ratio of approximately 49% and weighted-average debt service coverage ratio of 2.43 times; and \$1 billion of real estate held through direct ownership and real estate-related LPs/LLCs.

In addition, we held approximately \$9 billion of commercial mortgage-backed securities, of which approximately 89% and 10% were rated AAA (super-senior) and AA, respectively, and comprised of diversified collateral pools. Approximately 30% of the collateral pools were comprised of retail-related investments, with no pools solely collateralized by retail-related investments. For additional information regarding commercial mortgage-backed securities, see “—Fixed Maturity Securities—Fixed Maturity Securities Credit Quality” below.

## General Account Investments of PFI excluding Closed Block Division

In the following sections, we provide details about our investment portfolio, excluding investments held in the Closed Block division. We believe the details of the composition of our investment portfolio excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial, Inc. because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 7 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

## Fixed Maturity Securities

In the following sections, we provide details about our fixed maturity securities portfolio, which excludes fixed maturity securities classified as assets supporting experience-rated contractholder liabilities and classified as trading.

## Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to PFI excluding the Closed Block division and the associated gross unrealized gains and losses, as of the dates indicated:

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| Industry(1)                    | March 31, 2018 |                           |                            |            | December 31, 2017 |                           |                            |            |
|--------------------------------|----------------|---------------------------|----------------------------|------------|-------------------|---------------------------|----------------------------|------------|
|                                | Amortized Cost | Gross Unrealized Gains(2) | Gross Unrealized Losses(2) | Fair Value | Amortized Cost    | Gross Unrealized Gains(2) | Gross Unrealized Losses(2) | Fair Value |
|                                | (in millions)  |                           |                            |            |                   |                           |                            |            |
| Corporate securities:          |                |                           |                            |            |                   |                           |                            |            |
| Finance                        | \$26,330       | \$ 1,082                  | \$ 338                     | \$27,074   | \$25,906          | \$ 1,646                  | \$ 84                      | \$27,468   |
| Consumer non-cyclical          | 24,920         | 1,746                     | 386                        | 26,280     | 24,812            | 2,359                     | 140                        | 27,031     |
| Utility                        | 22,343         | 1,617                     | 329                        | 23,631     | 22,265            | 2,196                     | 118                        | 24,343     |
| Capital goods                  | 11,179         | 803                       | 172                        | 11,810     | 11,232            | 1,076                     | 52                         | 12,256     |
| Consumer cyclical              | 10,511         | 673                       | 184                        | 11,000     | 11,011            | 972                       | 77                         | 11,906     |
| Foreign agencies               | 5,825          | 889                       | 39                         | 6,675      | 5,619             | 996                       | 17                         | 6,598      |
| Energy                         | 10,797         | 712                       | 245                        | 11,264     | 10,621            | 998                       | 137                        | 11,482     |
| Communications                 | 6,384          | 589                       | 143                        | 6,830      | 6,266             | 782                       | 77                         | 6,971      |
| Basic industry                 | 6,134          | 422                       | 88                         | 6,468      | 6,061             | 590                       | 37                         | 6,614      |
| Transportation                 | 8,290          | 616                       | 82                         | 8,824      | 8,179             | 777                       | 28                         | 8,928      |
| Technology                     | 4,318          | 250                       | 70                         | 4,498      | 4,373             | 318                       | 33                         | 4,658      |
| Industrial other               | 3,984          | 291                       | 47                         | 4,228      | 3,866             | 348                       | 23                         | 4,191      |
| Total corporate securities     | 141,015        | 9,690                     | 2,123                      | 148,582    | 140,211           | 13,058                    | 823                        | 152,446    |
| Foreign government(3)          | 94,699         | 16,725                    | 349                        | 111,075    | 88,539            | 15,848                    | 291                        | 104,096    |
| Residential mortgage-backed(4) | 3,642          | 154                       | 35                         | 3,761      | 3,801             | 191                       | 10                         | 3,982      |
| Asset-backed                   | 9,064          | 171                       | 20                         | 9,215      | 8,389             | 214                       | 7                          | 8,596      |
| Commercial mortgage-backed     | 8,740          | 75                        | 155                        | 8,660      | 8,850             | 188                       | 64                         | 8,974      |
| U.S. Government                | 16,180         | 2,652                     | 527                        | 18,305     | 16,591            | 3,005                     | 306                        | 19,290     |
| State & Municipal              | 9,063          | 762                       | 30                         | 9,795      | 8,945             | 1,016                     | 6                          | 9,955      |
| Total(5)                       | \$282,403      | \$ 30,229                 | \$ 3,239                   | \$309,393  | \$275,326         | \$ 33,520                 | \$ 1,507                   | \$307,339  |

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

(2) Includes \$391 million of gross unrealized gains and less than \$1 million of gross unrealized losses, as of March 31, 2018, compared to \$381 million of gross unrealized gains and less than \$1 million of gross unrealized losses, as of December 31, 2017, on securities classified as held-to-maturity.

(3) As of both March 31, 2018 and December 31, 2017, based on amortized cost, 75% represent Japanese government bonds held by our Japanese insurance operations with no other individual country representing more than 10% and 11% of the balance, respectively.

(4) As of both March 31, 2018 and December 31, 2017, based on amortized cost, more than 99% were rated A or higher.

(5) Excluded from the table above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see “—Invested Assets of Other Entities and Operations” below.

The decrease in net unrealized gains from December 31, 2017 to March 31, 2018 was primarily due to an increase in U.S. interest rates and credit spread widening.

#### Fixed Maturity Securities Credit Quality

The Securities Valuation Office (“SVO”) of the NAIC evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called “NAIC Designations.” In general, NAIC Designations of “1” highest quality, or “2” high quality, include fixed maturities considered investment grade, which

include securities rated Baa3 or higher by Moody's or BBB- or higher by Standard & Poor's. NAIC Designations of "3" through "6" generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody's and BB+ or lower by Standard & Poor's. The NAIC Designations for commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages, are based on security level expected losses as modeled by an independent third-party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized.

As a result of time lags between the funding of investments, the finalization of legal documents, and the completion of the SVO filing process, the fixed maturity portfolio includes certain securities that have not yet been designated by the SVO as of each balance sheet date. Pending receipt of SVO designations, the categorization of these securities by NAIC Designation is based on the expected ratings indicated by internal analysis.

Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency (“FSA”), an agency of the Japanese government. The FSA has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the FSA’s credit quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody’s and Standard & Poor’s, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

The following table sets forth our fixed maturity portfolio by NAIC Designation or equivalent ratings attributable to PFI excluding the Closed Block division, as of the dates indicated:

| NAIC Designation(1)(2)                            | March 31, 2018    |                                 |                                  |                      | December 31, 2017 |                                 |                                  |                      |
|---|-------------------|---------------------------------|----------------------------------|----------------------|-------------------|---------------------------------|----------------------------------|----------------------|
|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains(3) | Gross<br>Unrealized<br>Losses(3) | Fair<br>Value<br>(4) | Amortized<br>Cost | Gross<br>Unrealized<br>Gains(3) | Gross<br>Unrealized<br>Losses(3) | Fair<br>Value<br>(4) |
|   | (in millions)     |                                 |                                  |                      |                   |                                 |                                  |                      |
| 1   | \$212,926         | \$ 25,727                       | \$ 2,017                         | \$236,636            | \$207,791         | \$ 27,550                       | \$ 925                           | \$234,416            |
| 2   | 52,390            | 3,405                           | 786                              | 55,009               | 50,751            | 4,560                           | 335                              | 54,976               |
| Subtotal High or Highest<br>Quality Securities(5) | 265,316           | 29,132                          | 2,803                            | 291,645              | 258,542           | 32,110                          | 1,260                            | 289,392              |
| 3   | 10,693            | 500                             | 221                              | 10,972               | 10,201            | 670                             | 79                               | 10,792               |
| 4   | 4,694             | 394                             | 151                              | 4,937                | 4,681             | 501                             | 105                              | 5,077                |
| 5   | 1,474             | 190                             | 57                               | 1,607                | 1,666             | 225                             | 57                               | 1,834                |
| 6   | 226               | 13                              | 7                                | 232                  | 236               | 14                              | 6                                | 244                  |
| Subtotal Other Securities(6)(7)                   | 17,087            | 1,097                           | 436                              | 17,748               | 16,784            | 1,410                           | 247                              | 17,947               |
| Total Fixed Maturities                            | \$282,403         | \$ 30,229                       | \$ 3,239                         | \$309,393            | \$275,326         | \$ 33,520                       | \$ 1,507                         | \$307,339            |

(1) Reflects equivalent ratings for investments of the international insurance operations.

Includes, as of March 31, 2018 and December 31, 2017, 765 securities with amortized cost of \$4,436 million (fair value, \$4,471 million) and 982 securities with amortized cost of \$6,022 million (fair value, \$6,217 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.

Includes \$391 million of gross unrealized gains and less than \$1 million of gross unrealized losses, as of March 31, 2018, compared to \$381 million of gross unrealized gains and less than \$1 million of gross unrealized losses, as of December 31, 2017, on securities classified as held-to-maturity.

As of March 31, 2018, includes gross unrealized losses of \$329 million on public fixed maturities and \$107 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2017, includes gross unrealized losses of \$156 million on public fixed maturities and \$91 million on private fixed maturities considered to be other than high or highest quality.

On an amortized cost basis, as of March 31, 2018, includes \$228,504 million of public fixed maturities and \$36,812 million of private fixed maturities and, as of December 31, 2017, includes \$222,763 million of public fixed maturities and \$35,779 million of private fixed maturities.

On an amortized cost basis, as of March 31, 2018, includes \$10,388 million of public fixed maturities and \$6,699 million of private fixed maturities and, as of December 31, 2017, includes \$9,975 million of public fixed maturities and \$6,809 million of private fixed maturities.

On an amortized cost basis, as of March 31, 2018, securities considered below investment grade based on lowest of external rating agency ratings total \$17,973 million, or 6% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.



The following table sets forth the amortized cost and fair value of asset-backed and commercial mortgage-backed securities attributable to PFI excluding the Closed Block division by credit quality, as of the dates indicated:

| Lowest Rating Agency Rating(1) | March 31, 2018             |            |  |            | December 31, 2017          |            |  |            |
|--------------------------------|----------------------------|------------|--|------------|----------------------------|------------|--|------------|
|                                | Asset-Backed Securities(2) |            | Commercial Mortgage-Backed Securities(3) |            | Asset-Backed Securities(2) |            | Commercial Mortgage-Backed Securities(3) |            |
|                                | Amortized Cost             | Fair Value | Amortized Cost                           | Fair Value | Amortized Cost             | Fair Value | Amortized Cost                           | Fair Value |
|                                | (in millions)              |            |  |            |                            |            |  |            |
| AAA                            | \$8,363                    | \$8,407    | \$7,809                                  | \$7,741    | \$7,613                    | \$7,686    | \$8,002                                  | \$8,125    |
| AA                             | 416                        | 441        | 898                                      | 887        | 419                        | 442        | 816                                      | 818        |
| A                              | 33                         | 38         | 23                                       | 22         | 40                         | 46         | 23                                       | 22         |
| BBB                            | 37                         | 38         | 9  | 9          | 42                         | 43         | 9  | 9          |
| BB and below                   | 215                        | 291        | 1  | 1          | 275                        | 379        | 0  | 0          |
| Total(4)                       | \$9,064                    | \$9,215    | \$8,740                                  | \$8,660    | \$8,389                    | \$8,596    | \$8,850                                  | \$8,974    |

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of March 31, 2018, including Standard & Poor's, Moody's, Fitch and Morningstar.

(2) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types. As of March 31, 2018 and December 31, 2017, based on amortized cost, 78% and 79%, respectively, were collateralized loan obligations rated A or higher.

(3) As of both March 31, 2018 and December 31, 2017, based on amortized cost, 95% were securities with vintages of 2013 or later.

(4) Excludes securities held outside the general account in other entities and operations.

#### Credit Derivative Exposure to Public Fixed Maturities

In addition to the public fixed maturities noted above, as part of investment portfolio repositioning, we may from time to time sell credit derivatives to manage credit exposure of our investment portfolio by synthetically creating investments similar to public fixed maturities.

In a credit derivative, we may sell credit protection on an identified name or a broad-based index and in return receive a quarterly premium. The majority of the underlying reference names in single name and index credit derivatives where we have sold credit protection, as well as all the counterparties to these agreements, are investment grade credit quality, and our credit derivatives have a remaining term to maturity of twenty-nine years or less. The premium or credit spread generally corresponds to the difference between the yield on the reference name's (or index's underlying reference names) public fixed maturity cash instruments and swap rates at the time the agreement is executed. Credit derivative contracts are recorded at fair value with changes in fair value, including the premiums received, recorded in "Realized investment gains (losses), net."

As of March 31, 2018 and December 31, 2017, PFI excluding the Closed Block division had \$1,132 million and \$1,136 million of notional amounts of exposure where we have sold credit protection through credit derivatives, respectively, reported at fair value as an asset of \$11 million and \$20 million, respectively. "Realized investment gains (losses), net" from credit derivatives we sold were a gain of \$2 million and less than \$1 million for the three months ended March 31, 2018 and 2017, respectively.

In addition to selling credit protection, we have purchased credit protection using credit derivatives in order to hedge specific credit exposures in our investment portfolio. As of March 31, 2018 and December 31, 2017, PFI excluding the Closed Block division had \$72 million and \$100 million of notional amounts, respectively, reported at fair value as a liability of \$2 million and \$1 million, respectively. "Realized investment gains (losses), net" from credit derivatives we purchased were a loss of less than \$1 million and \$1 million for the three months ended March 31, 2018 and 2017, respectively.

OTTI of Fixed Maturity Securities

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. Our public fixed maturity investment managers review all public fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances and/or company or industry-specific concerns.



For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish “checks and balances” for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our private fixed maturity investment managers formally review all private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances and/or company or industry-specific concerns. For additional information regarding our OTTI policies for fixed maturity securities, see Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

OTTI of general account fixed maturity securities attributable to PFI excluding the Closed Block division that were recognized in earnings were \$31 million for both the three months ended March 31, 2018 and 2017, respectively. For a further discussion of OTTI, see “—Realized Investment Gains and Losses” above.

Assets Supporting Experience-Rated Contractholder Liabilities (ASCL)

The following table sets forth the composition of the “ASCL” portfolio attributable to PFI excluding the Closed Block division, as of the dates indicated:

|   | March 31, 2018         |            | December 31, 2017 |            |
|---|------------------------|------------|-------------------|------------|
|   | Amortized Cost or Cost | Fair Value | Amortized Cost    | Fair Value |
|   | (in millions)          |            |                   |            |
| Short-term investments and cash equivalents                             | \$151                  | \$151      | \$245             | \$245      |
| Fixed maturities:   |                        |            |                   |            |
| Corporate securities  | 13,573                 | 13,627     | 13,816            | 14,073     |
| Commercial mortgage-backed securities                                   | 2,394                  | 2,369      | 2,294             | 2,311      |
| Residential mortgage-backed securities                                  | 923                    | 908        | 961               | 966        |
| Asset-backed securities   | 1,398                  | 1,426      | 1,363             | 1,392      |
| Foreign government bonds  | 1,101                  | 1,104      | 1,050             | 1,057      |
| U.S. government authorities and agencies and obligations of U.S. states | 367                    | 400        | 357               | 410        |
| Total fixed maturities(1)   | 19,756                 | 19,834     | 19,841            | 20,209     |
| Equity securities   | 1,395                  | 1,652      | 1,278             | 1,643      |
| Total assets supporting experience-rated contractholder liabilities(2)  | \$21,302               | \$21,637   | \$21,364          | \$22,097   |

(1) As a percentage of amortized cost, 92% of the portfolio was considered high or highest quality based on NAIC or equivalent ratings, as of both March 31, 2018 and December 31, 2017.

(2) As a percentage of amortized cost, 79% and 80% of the portfolio consisted of public securities as of March 31, 2018 and December 31, 2017, respectively.

## Commercial Mortgage and Other Loans

### Investment Mix

The following table sets forth the composition of our commercial mortgage and other loans portfolio attributable to PFI excluding the Closed Block division, as of the dates indicated:



|   | March<br>31, 2018 | December<br>31, 2017 |
|---|-------------------|----------------------|
|   | (in millions)     |                      |
| Commercial mortgage and agricultural property loans | \$47,938          | \$45,623             |
| Uncollateralized loans                              | 688               | 661                  |
| Residential property loans                          | 196               | 196                  |
| Other collateralized loans                          | 4                 | 5                    |
| Total recorded investment gross of allowance(1)     | 48,826            | 46,485               |
| Valuation allowance                                 | (93 )             | (91 )                |
| Total net commercial mortgage and other loans(2)    | \$48,733          | \$46,394             |

(1) As a percentage of recorded investment gross of allowance, more than 99% of these assets were current as of both March 31, 2018 and December 31, 2017.

(2) Excluded from the table above are commercial mortgage and other loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage and other loans held outside the general account, see “—Invested Assets of Other Entities and Operations” below.

We originate commercial mortgage and agricultural property loans using a dedicated investment staff through our various regional offices in the U.S. and international offices primarily in London and Tokyo. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our experience in real estate and mortgage lending.

Uncollateralized loans primarily represent corporate loans which do not meet the definition of a security under authoritative accounting guidance.

Residential property loans primarily include Japanese recourse loans. Upon default of these recourse loans, we can make a claim against the personal assets of the property owner, in addition to the mortgaged property. These loans are also backed by third-party guarantors.

Other collateralized loans include consumer loans.

#### Composition of Commercial Mortgage and Agricultural Property Loans

Our commercial mortgage and agricultural property loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by geographic region and property type, as of the dates indicated:

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|  | March 31, 2018       |            | December 31, 2017    |            |
|--|----------------------|------------|----------------------|------------|
|  | Gross Carrying Value | % of Total | Gross Carrying Value | % of Total |
| Commercial mortgage and agricultural property loans by region: |                      |            |                      |            |
| U.S. Regions(1):   |                      |            |                      |            |
| Pacific  | \$15,973             | 33.3 %     | \$14,965             | 32.8 %     |
| South Atlantic   | 8,740                | 18.2       | 8,666                | 19.0       |
| Middle Atlantic  | 6,046                | 12.6       | 5,776                | 12.7       |
| East North Central   | 2,496                | 5.2        | 2,440                | 5.3        |
| West South Central   | 5,175                | 10.8       | 4,671                | 10.2       |
| Mountain   | 2,111                | 4.4        | 2,027                | 4.5        |
| New England  | 1,768                | 3.7        | 1,774                | 3.9        |
| West North Central   | 620                  | 1.3        | 641                  | 1.4        |
| East South Central   | 590                  | 1.2        | 612                  | 1.3        |
| Subtotal-U.S.  | 43,519               | 90.7       | 41,572               | 91.1       |
| Europe   | 2,758                | 5.8        | 2,528                | 5.5        |
| Asia   | 651                  | 1.4        | 619                  | 1.4        |
| Other  | 1,010                | 2.1        | 904                  | 2.0        |
| Total commercial mortgage and agricultural property loans      | \$47,938             | 100.0%     | \$45,623             | 100.0%     |

(1)Regions as defined by the United States Census Bureau.

|   | March 31, 2018       |            | December 31, 2017    |            |
|---|----------------------|------------|----------------------|------------|
|   | Gross Carrying Value | % of Total | Gross Carrying Value | % of Total |
| Commercial mortgage and agricultural property loans by property type: |                      |            |                      |            |
| Industrial  | \$9,583              | 20.0 %     | \$8,444              | 18.5 %     |
| Retail  | 6,739                | 14.1       | 6,595                | 14.5       |
| Office  | 10,685               | 22.3       | 10,020               | 22.0       |
| Apartments/Multi-Family   | 13,510               | 28.2       | 12,993               | 28.5       |
| Other   | 3,286                | 6.8        | 3,336                | 7.3        |
| Agricultural properties   | 2,537                | 5.3        | 2,526                | 5.5        |
| Hospitality   | 1,598                | 3.3        | 1,709                | 3.7        |
| Total commercial mortgage and agricultural property loans             | \$47,938             | 100.0%     | \$45,623             | 100.0%     |

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage and agricultural property loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan and is commonly expressed as a percentage. A loan-to-value ratio less than 100% indicates an excess of collateral value over the loan amount. Loan-to-value ratios greater than 100% indicate that the loan amount exceeds the collateral value. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan's current debt payments. A debt service coverage ratio greater than 1.0 times indicates an excess of net operating income over the debt service payments.



As of March 31, 2018, our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division had a weighted-average debt service coverage ratio of 2.44 times and a weighted-average loan-to-value ratio of 55%. As of March 31, 2018, 97% of commercial mortgage and agricultural property loans were fixed rate loans. For those commercial mortgage and agricultural property loans that were originated in 2018, the weighted-average debt service coverage ratio was 2.28 times, and the weighted-average loan-to-value ratio was 65%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial mortgage and agricultural property loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal quality rating is a key input in determining our allowance for losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial mortgage and agricultural property loan portfolio included approximately \$1.5 billion and approximately \$1.0 billion of such loans as of March 31, 2018 and December 31, 2017, respectively. All else being equal, these loans are inherently riskier than those collateralized by properties that have already stabilized. As of March 31, 2018, there were no loan-specific reserves related to these loans. In addition, these unstabilized loans are included in the calculation of our portfolio reserve as discussed below.

The following table sets forth the gross carrying value of our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by loan-to-value and debt service coverage ratios, as of the date indicated:

| Loan-to-Value Ratio                                       | March 31, 2018<br>Debt Service<br>Coverage Ratio |                      |        | Total<br>Commercial<br>Mortgage<br>and Agricultural<br>Property<br>Loans |
|---|--|----------------------|--------|--|
|   | > 1.2x   | 1.0x<br>to<br>< 1.2x | < 1.0x |  |
|   | (in millions)                                    |                      |        |  |
| 0%-59.99%   | \$26,608   | \$722                | \$215  | \$ 27,545  |
| 60%-69.99%  | 12,884   | 546                  | 147    | 13,577   |
| 70%-79.99%  | 6,075  | 595                  | 0      | 6,670  |
| 80% or greater  | 71   | 75                   | 0      | 146  |
| Total commercial mortgage and agricultural property loans | \$45,638   | \$1,938              | \$362  | \$ 47,938  |

The following table sets forth the breakdown of our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by year of origination, as of the date indicated:

| Year of Origination | March 31, 2018             |               |
|---------------------|----------------------------|---------------|
|                     | Gross<br>Carrying<br>Value | % of<br>Total |
|                     | (\$ in millions)           |               |
| 2018                | \$3,042                    | 6.3 %         |
| 2017                | 8,017                      | 16.7          |
| 2016                | 7,425                      | 15.5          |

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|   |          |        |
|---|----------|--------|
| 2015  | 7,224    | 15.1   |
| 2014  | 6,791    | 14.2   |
| 2013  | 6,582    | 13.7   |
| 2012  | 3,431    | 7.2    |
| 2011 & Prior  | 5,426    | 11.3   |
| Total commercial mortgage and agricultural property loans | \$47,938 | 100.0% |

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## Commercial Mortgage and Other Loans Quality

The commercial mortgage and other loans portfolio is reviewed on an ongoing basis. If certain criteria are met, loans are assigned to either of the following “watch list” categories:

- (1) “Closely Monitored,” which includes a variety of considerations, such as when loan metrics fall below acceptable levels, the borrower is not cooperative or has requested a material modification, or the portfolio manager has directed a change in category; or
- (2) “Not in Good Standing,” which includes loans in default or with a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy.

Our workout and special servicing professionals manage the loans on the watch list.

We establish an allowance for losses to provide for the risk of credit losses inherent in the lending process. The allowance includes loan-specific reserves for loans that are determined to be impaired as a result of our loan review process and a portfolio reserve for probable incurred but not specifically identified losses for loans which are not on the watch list. We define an impaired loan as a loan for which we estimate it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The loan-specific portion of the valuation allowance is based on our assessment as to ultimate collectability of loan principal and interest. Valuation allowances for an impaired loan are recorded based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or based on the fair value of the collateral if the loan is collateral dependent. The portfolio reserve for incurred but not specifically identified losses considers the current credit composition of the portfolio based on the internal quality ratings mentioned above. The portfolio reserves are determined using past loan experience, including historical credit migration, loss probability and loss severity factors by property type. These factors are reviewed and updated as appropriate. The valuation allowance for commercial mortgage and other loans can increase or decrease from period to period based on these factors.

The following table sets forth the change in valuation allowances for our commercial mortgage and other loans portfolio, as of the dates indicated:

|   | March<br>31,<br>2018 | December<br>31, 2017 |
|---|----------------------|----------------------|
|   | (in millions)        |                      |
| Allowance, beginning of year                  | \$91                 | \$ 90                |
| Addition to (release of) allowance for losses | 2                    | 1                    |
| Charge-offs, net of recoveries                | 0                    | 0                    |
| Change in foreign exchange                    | 0                    | 0                    |
| Allowance, end of period                      | \$93                 | \$ 91                |
| Loan-specific reserve                         | \$5                  | \$ 5                 |
| Portfolio reserve                             | \$88                 | \$ 86                |

The allowance for losses as of March 31, 2018 remained relatively flat compared to December 31, 2017.

## Equity Securities

## Investment Mix

The equity securities attributable to PFI excluding the Closed Block division consist principally of investments in common and preferred stock of publicly-traded companies, as well as mutual fund shares. The following table sets forth the composition of our equity securities portfolio and the associated gross unrealized gains and losses, as of the dates indicated:





|  | March 31, 2018 |                        |                         | December 31, 2017 |         |                        |                         |            |
|--|----------------|------------------------|-------------------------|-------------------|---------|------------------------|-------------------------|------------|
|  | Cost           | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value        | Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|  | (in millions)  |                        |                         |                   |         |                        |                         |            |
| Mutual funds                           | \$1,098        | \$ 222                 | \$ 6                    | \$1,314           | \$778   | \$ 157                 | \$ 0                    | \$935      |
| Other common stocks                    | 2,142          | 988                    | 48                      | 3,082             | 2,215   | 1,145                  | 30                      | 3,330      |
| Non-redeemable preferred stocks        | 9              | 0                      | 1                       | 8                 | 11      | 1                      | 1                       | 11         |
| Equity securities, at fair value(1)(2) | \$3,249        | \$ 1,210               | \$ 55                   | \$4,404           | \$3,004 | \$ 1,303               | \$ 31                   | \$4,276    |

(1) Amounts presented exclude investments in private equity and hedge funds and other investments which are reported in "Other invested assets."

(2) Prior period amounts have been reclassified to conform to current period presentation. For additional information, see Note 2 to the Unaudited Interim Consolidated Financial Statements.

The net change in unrealized gains (losses) from equity securities attributable to PFI excluding Closed Block division still held at period end, recorded within "Other income," was \$(77) million during the three months ended March 31, 2018.

#### Other Invested Assets

The following table sets forth the composition of "Other invested assets" attributable to PFI excluding the Closed Block division, as of the dates indicated:

|  | March 31, 2018 | December 31, 2017 |
|--|----------------|-------------------|
|  | (in millions)  |                   |
| LPs/LLCs:                                    |                |                   |
| Equity method:                               |                |                   |
| Private equity                               | \$2,053        | \$ 2,067          |
| Hedge funds                                  | 480            | 400               |
| Real estate-related                          | 420            | 268               |
| Subtotal equity method                       | 2,953          | 2,735             |
| Fair value:                                  |                |                   |
| Private equity                               | 856            | 731               |
| Hedge funds                                  | 1,396          | 1,361             |
| Real estate-related                          | 63             | 63                |
| Subtotal fair value(1)                       | 2,315          | 2,155             |
| Total LPs/LLCs                               | 5,268          | 4,890             |
| Real estate held through direct ownership(2) | 1,855          | 1,875             |
| Derivative instruments                       | 64             | 113               |
| Other(3)                                     | 631            | 632               |
| Total other invested assets(4)               | \$7,818        | \$ 7,510          |

(1) As of December 31, 2017, \$794 million was accounted for using the cost method.

(2) As of March 31, 2018 and December 31, 2017, real estate held through direct ownership had mortgage debt of \$802 million and \$799 million, respectively.

(3) Primarily includes leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our 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, 2017.

(4) Prior period amounts have been reclassified to conform to current period presentation. For additional information, see Note 2 to the Unaudited Interim Consolidated Financial Statements.

#### OTTI of Other Invested Assets

For LPs/LLCs accounted for using the equity method, the carrying value of these investments is written down or impaired to fair value when a decline in value is considered to be other-than-temporary. For additional information regarding our OTTI policies for LPs/LLCs as well as wholly-owned investment real estate and other investments, 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, 2017.

OTTI on other invested assets attributable to PFI excluding the Closed Block division that were recognized in earnings were \$3 million and \$4 million for the three months ended March 31, 2018 and 2017, respectively. For a further discussion of OTTI, see “—Realized Investment Gains and Losses” above.

#### Invested Assets of Other Entities and Operations

“Invested Assets of Other Entities and Operations” presented below includes investments held outside the general account and primarily represents investments associated with our investment management operations and derivative operations. Our derivative operations act on behalf of affiliates primarily to manage interest rate, foreign currency, credit and equity exposures. Assets within our investment management operations that are managed for third-parties and those assets classified as “Separate account assets” on our balance sheet are not included.

|   | March<br>31,<br>2018 | December<br>31, 2017 |
|---|----------------------|----------------------|
|   | (in millions)        |                      |
| Fixed maturities:                                     |                      |                      |
| Public, available-for-sale, at fair value             | \$680                | \$ 608               |
| Private, available-for-sale, at fair value            | 1                    | 1                    |
| Fixed maturities, trading, at fair value              | 1,172                | 1,718                |
| Equity securities, at fair value                      | 576                  | 574                  |
| Commercial mortgage and other loans, at book value(1) | 338                  | 634                  |
| Other invested assets                                 | 2,819                | 2,704                |
| Short-term investments                                | 31                   | 66                   |
| Total investments(2)                                  | \$5,617              | \$ 6,305             |

(1) Book value is generally based on unpaid principal balance, net of any allowance for losses, or at fair value, when the fair value option has been elected.

(2) Prior period amounts have been reclassified to conform to current period presentation. For additional information, see Note 2 to the Unaudited Interim Consolidated Financial Statements.

#### Fixed Maturities, Trading

“Fixed maturities, trading, at fair value” are primarily related to assets associated with consolidated variable interest entities for which the Company is the investment manager. The assets of the consolidated variable interest entities are generally offset by liabilities for which the fair value option has been elected. For further information on these consolidated variable interest entities, see Note 4 to the Unaudited Interim Consolidated Financial Statements.

#### Commercial Mortgage and Other Loans

Our investment management operations include our commercial mortgage operations, which provide mortgage origination, investment management and servicing for our general account, institutional clients, the Federal Housing Administration and government-sponsored entities such as Fannie Mae and Freddie Mac.

The mortgage loans of our commercial mortgage operations are included in “Commercial mortgage and other loans.” Derivatives and other hedging instruments related to our commercial mortgage operations are primarily included in “Other invested assets.”

#### Other Invested Assets

Other invested assets primarily include assets of our derivative operations used to manage interest rate, foreign currency, credit and equity exposures.

Furthermore, other invested assets include strategic investments made as part of our investment management operations. We make these strategic investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other strategic investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). As part of our investment management operations, we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds. Other invested assets also include certain assets in consolidated investment funds where the Company is deemed to exercise control over the funds.

## Liquidity and Capital Resources

### Overview

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long-term financial resources available to support the operations of our businesses, fund business growth, and provide a cushion to withstand adverse circumstances. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our businesses, general economic conditions and our access to the capital markets and the alternate sources of liquidity and capital described herein.

Effective and prudent liquidity and capital management is a priority across the organization. Management monitors the liquidity of Prudential Financial and its subsidiaries on a daily basis and projects borrowing and capital needs over a multi-year time horizon through our periodic planning process. We believe that cash flows from the sources of funds available to us are sufficient to satisfy the current liquidity requirements of Prudential Financial and its subsidiaries, including under reasonably foreseeable stress scenarios. We have a capital management framework in place that governs the allocation of capital and approval of capital uses. We also employ a Capital Protection Framework to ensure the availability of capital resources to maintain adequate capitalization on a consolidated basis and competitive risk-based capital (“RBC”) ratios and solvency margins for our insurance subsidiaries under various stress scenarios.

Prudential Financial is a Designated Financial Company under Dodd-Frank. As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the Federal Reserve Bank of Boston and to stricter prudential regulatory standards, which include or will include requirements and limitations (many of which are the subject of ongoing rule-making) relating to capital, leverage, liquidity, stress-testing, overall risk management, resolution and recovery plans, credit exposure reporting, early remediation, management interlocks and credit concentration. They may also include standards regarding enhanced public disclosure, short-term debt limits and other related subjects. In addition, the Financial Stability Board has identified the Company as a global systemically important insurer (“G-SII”). For information on these regulatory initiatives and their potential impact on us, see “Business—Regulation” and “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2017.

During the three months ended March 31, 2018, we took the following significant actions that impacted our liquidity and capital position:

- We repurchased \$375 million of shares of our Common Stock and declared aggregate Common Stock dividends of \$387 million;
- We issued \$1.0 billion of medium-term notes to be utilized for general corporate purposes, which may include refinancing portions of our medium-term notes maturing through 2018; and
- We obtained additional financing for Guideline XXX reserves by entering into a new captive financing facility for \$1.6 billion, of which \$100 million was outstanding as of March 31, 2018.

## Capital

The primary components of the Company's capitalization consist of equity and outstanding capital debt, including junior subordinated debt. As shown in the table below, as of March 31, 2018, the Company had \$49.5 billion in capital, all of which was available to support the aggregate capital requirements of its divisions and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital is consistent with our ratings targets.

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|  | March         | December  |
|--|---------------|-----------|
|  | 31,           | 31,       |
|  | 2018          | 2017      |
|  | (in millions) |           |
| Equity(1)(2)   | \$37,069      | \$ 37,162 |
| Junior subordinated debt (including hybrid securities) | 6,627         | 6,622     |
| Other capital debt                                     | 5,800         | 5,402     |
| Total capital  | \$49,496      | \$ 49,186 |

(1) Amounts attributable to Prudential Financial, excluding AOCI.

(2) Prior period amount has been restated to conform to current period presentation. See Note 2 to our Unaudited Interim Consolidated Financial Statements for details.

We manage Prudential Insurance, The Prudential Life Insurance Company, Ltd. (“Prudential of Japan”), Gibraltar Life, and other significant insurance subsidiaries to regulatory capital levels consistent with our “AA” ratings targets. We utilize the RBC ratio as a primary measure of the capital adequacy of our domestic insurance subsidiaries and the solvency margin ratio as a primary measure of the capital adequacy of our Japanese insurance subsidiaries.

The table below presents the RBC ratios of our most significant domestic insurance subsidiaries as of December 31, 2017, the most recent statutory fiscal year-end and RBC reporting date for these subsidiaries.

|  | Ratio(1) |
|--|----------|
| Prudential Insurance(2)                        | 410 %    |
| PALAC  | 1,034 %  |
| Composite Major U.S. Insurance Subsidiaries(3) | 529 %    |

(1) The RBC ratio calculations are intended to assist insurance regulators in measuring an insurer’s solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities, but is available to the public.

(2) Includes Prudential Retirement Insurance and Annuity Company (“PRIAC”), Pruco Life Insurance Company (“Pruco Life”), Pruco Life Insurance Company of New Jersey (“PLNJ”), which is a subsidiary of Pruco Life, and Prudential Legacy Insurance Company of New Jersey (“PLIC”).

(3) Includes Prudential Insurance and its subsidiaries, as noted above, and Prudential Annuities Life Assurance Corporation (“PALAC”). Composite RBC is not reported to regulators and is based on the summation of total adjusted capital and risk charges for the included companies as determined under statutory accounting and RBC guidance to calculate a composite numerator and denominator, respectively, for purposes of calculating the composite ratio.

The NAIC is evaluating changes to RBC factors as a result of the Tax Act of 2017, including the impact of the reduction of the corporate tax rate from 35% to 21%. This tax rate reduction has the effect of increasing an insurer’s required capital on an after-tax basis. This general principle impacts a number of RBC factors resulting in an overall decrease in insurers’ RBC ratios. While the impact and timing of any changes will not be fully known until the final updated RBC requirements are formally issued and adopted, the Company expects to have the necessary resources to maintain its “AA” ratings targets.

The table below presents the solvency margin ratios of our most significant international insurance subsidiaries as of December 31, 2017, the most recent date for which this information is available.

Ratio



Prudential of Japan consolidated(1) 919%  
Gibraltar Life consolidated(2) 965%

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(1) Includes Prudential Trust Co., Ltd., a subsidiary of Prudential of Japan.

(2) Includes Prudential Gibraltar Financial Life Insurance Co., Ltd. (“PGFL”), a subsidiary of Gibraltar Life.

All of our domestic and significant international insurance subsidiaries have capital levels that substantially exceed the minimum level required by applicable insurance regulations. For further information on the calculation of RBC and solvency margin ratios, as well as regulatory minimums, see Note 15 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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## Capital Protection Framework

We employ a “Capital Protection Framework” (the “Framework”) to ensure that sufficient capital resources are available to maintain adequate capitalization on a consolidated basis for our insurance subsidiaries under various stress scenarios. The Framework incorporates the potential impacts from market related stresses, including equity markets, real estate, interest rates, credit losses, and foreign currency exchange rates. In evaluating these potential impacts, we assess risk holistically at the enterprise level, recognizing that our business mix may produce results that partially offset on a net basis.

The Framework accommodates periodic volatility within ranges that we deem acceptable, while also providing for potential sources of capital, including on-balance sheet capital capacity and contingent sources of capital. We believe we currently have access to sufficient resources to maintain adequate capitalization under a range of potential stress scenarios.

## Captive Reinsurance Companies

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital—Captive Reinsurance Companies” included in our Annual Report on Form 10-K for the year ended December 31, 2017, for a discussion of our use of captive reinsurance companies.

## Shareholder Distributions

## Share Repurchase Program and Shareholder Dividends

In December 2017, our Board of Directors (“the Board”) authorized the Company to repurchase at management’s discretion up to \$1.5 billion of its outstanding Common Stock during the period from January 1, 2018 through December 31, 2018.

The timing and amount of share repurchases are determined by management based on market conditions and other considerations, including any increased capital needs of our businesses due to, among other things, changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934 (the “Exchange Act”). The following table sets forth information about declarations of Common Stock dividends, as well as repurchases of shares of Prudential Financial’s Common Stock, for the three months ended March 31, 2018.

|                     | Dividend<br>Amount                   | Shares Repurchased |            |        |
|---------------------|--------------------------------------|--------------------|------------|--------|
| Three months ended: | Per Share                            | Aggregate Shares   | Total Cost |        |
|                     | (in millions, except per share data) |                    |            |        |
| March 31, 2018      | \$0.90                               | \$ 387             | 3.3        | \$ 375 |

## Liquidity

The principles of our liquidity management framework are described in an enterprise-wide Liquidity Management Policy that is reviewed and approved by the Board. Liquidity management and stress testing are performed on a legal entity basis as the ability to transfer funds between subsidiaries is limited due in part to regulatory restrictions. Liquidity needs are determined through daily and quarterly cash flow forecasting at the holding company and within our operating subsidiaries. A minimum balance of highly liquid assets of at least \$1.3 billion is targeted to ensure that

adequate liquidity is available at Prudential Financial to cover fixed expenses in the event that we experience reduced cash flows from our operating subsidiaries at a time when access to capital markets is also not available. This targeted minimum balance is reviewed and approved annually by the Board.

We seek to mitigate the risk of having limited or no access to financing due to stressed market conditions by generally pre-funding capital debt in advance of maturity. We mitigate the refinancing risk associated with our debt that is used to fund operating needs by matching the term of debt with the assets financed. To ensure adequate liquidity in stress scenarios, stress testing is performed for our major operating subsidiaries. We seek to further mitigate liquidity risk by maintaining our access to alternative sources of liquidity, as discussed below.

#### Liquidity of Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends, returns of capital and loans from subsidiaries, and proceeds from debt issuances and certain stock-based compensation activity. These sources of funds may be supplemented by Prudential Financial's access to the capital markets as well as the "—Alternative Sources of Liquidity" described below.

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The primary uses of funds at Prudential Financial include servicing debt, making capital contributions and loans to subsidiaries, paying declared shareholder dividends and repurchasing outstanding shares of Common Stock executed under authority from the Board.

As of March 31, 2018, Prudential Financial had highly liquid assets with a carrying value totaling \$5,864 million, an increase of \$674 million from December 31, 2017. Highly liquid assets predominantly include cash, short-term investments, U.S. Treasury securities, obligations of other U.S. government authorities and agencies, and/or foreign government bonds. We maintain an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding the balance of this intercompany liquidity account, Prudential Financial had highly liquid assets of \$5,123 million as of March 31, 2018, an increase of \$747 million from December 31, 2017.

The following table sets forth Prudential Financial's principal sources and uses of highly liquid assets, excluding net borrowings from our intercompany liquidity account, for the period indicated.

|  | Three<br>Months<br>Ended<br>March<br>31, 2018<br>(in<br>millions) |
|--|---|
| Sources:   |   |
| Dividends and/or returns of capital from subsidiaries(1)             | \$ 1,521  |
| Proceeds from the issuance of senior debt                            | 994   |
| Net income tax receipts  | 188   |
| Proceeds from stock-based compensation and exercise of stock options | 122   |
| Total sources  | 2,825   |
| Uses:  |   |
| Net payments under intercompany loan agreements(2)                   | 834   |
| Common stock dividends(3)  | 388   |
| Share repurchases  | 363   |
| Capital contributions to subsidiaries(4)                             | 116   |
| Interest paid on external debt                                       | 114   |
| Other, net   | 263   |
| Total uses   | 2,078   |
| Net increase (decrease) in highly liquid assets                      | \$ 747  |

Includes dividends and/or returns of capital of \$1,166 million from International Insurance subsidiaries, \$300 million from PALAC, \$22 million from Investment Management subsidiaries, \$28 million from Prudential Annuities Holding Company, and \$5 million from other subsidiaries.

Includes net payments of \$623 million from the repayment of notes to International Insurance subsidiaries, \$150 million to Dryden Arizona Reinsurance Term Company, \$100 million to Prudential Universal Reinsurance Company, and \$2 million to other subsidiaries offset by net receipt of \$41 million from Investment Management subsidiaries.

(3) Includes cash payments made on dividends declared in prior periods.

(4) Reflects capital contributions to International Insurance subsidiaries.

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. Also, more generally, the payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors. See Note 15 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017, for details on specific dividend restrictions.

Domestic insurance subsidiaries. Prudential Insurance is permitted to pay ordinary dividends based on calculations specified under New Jersey insurance law, subject to prior notification to the New Jersey Department of Banking and Insurance (“NJDOBI”). Any distributions above this amount in any twelve-month period are considered to be “extraordinary” dividends, and the approval of NJDOBI is required prior to payment. The laws regulating dividends of the states where our other domestic insurance companies are domiciled are similar, but not identical, to New Jersey’s. During the first three months of 2018, Prudential Financial received an extraordinary dividend of \$300 million from PALAC.

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International insurance subsidiaries. Capital redeployment from our international insurance subsidiaries is subject to local regulatory requirements in the international jurisdictions in which they operate. Our most significant international insurance subsidiaries, Prudential of Japan and Gibraltar Life, are permitted to pay common stock dividends based on calculations specified by Japanese insurance law, subject to prior notification to the FSA. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the FSA. In addition to paying common stock dividends, international insurance operations may return capital to Prudential Financial through other means, such as the repayment of subordinated debt or preferred stock obligations held by Prudential Financial or other affiliates.

During the first three months of 2018, Prudential Financial received \$942 million from Prudential International Insurance Holdings, the domestic parent of our international insurance subsidiaries, all of which was received from Prudential Holdings of Japan, Inc. (“PHJ”), the parent of the Company’s Japanese operations. Of this amount, \$260 million was sent to PHJ from its subsidiaries in 2016 and had been retained at PHJ since that time. PHJ received the remaining \$682 million as a common stock dividend from its subsidiaries in 2018.

Other subsidiaries. The ability of our investment management subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint.

Liquidity of Insurance Subsidiaries

We manage the liquidity of our insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity within each of our insurance subsidiaries is provided by a variety of sources, including portfolios of liquid assets. The investment portfolios of our subsidiaries are integral to the overall liquidity of our insurance operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of each of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities.

Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate our insurance operations’ liquidity under various stress scenarios, including company-specific and market-wide events. We continue to believe that cash generated by ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for each of our insurance subsidiaries.

The principal sources of liquidity for our insurance subsidiaries are premiums, investment and fee income, and investment maturities and sales associated with our insurance and annuity operations, as well as internal and external borrowings. The principal uses of that liquidity include benefits, claims and dividends paid to policyholders, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity may include commissions, general and administrative expenses, purchases of investments, the payment of dividends to the parent holding company, hedging and reinsurance activity and payments in connection with financing activities.

The following table sets forth the fair value of certain of our domestic insurance operations’ portfolio of liquid assets, as of the dates indicated.

| March 31, 2018       |                  | December 31, 2017 |       |
|----------------------|------------------|-------------------|-------|
| Prudential Insurance | PLIC PRIAC PALAC | Pruco Life        | Total |

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|   | (in billions) |        |        |        |       |         |         |
|---|---------------|--------|--------|--------|-------|---------|---------|
| Cash and short-term investments         | \$5.0         | \$1.5  | \$0.2  | \$2.5  | \$0.1 | \$9.3   | \$11.7  |
| Fixed maturity investments(1):          |               |        |        |        |       |         |         |
| High or highest quality                 | 103.8         | 35.3   | 19.1   | 8.7    | 4.9   | 171.8   | 175.1   |
| Other than high or highest quality      | 7.1           | 3.1    | 1.7    | 0.5    | 0.4   | 12.8    | 13.8    |
| Subtotal                                | 110.9         | 38.4   | 20.8   | 9.2    | 5.3   | 184.6   | 188.9   |
| Public equity securities, at fair value | 0.3           | 2.3    | 0.0    | 0.0    | 0.0   | 2.6     | 2.8     |
| Total                                   | \$116.2       | \$42.2 | \$21.0 | \$11.7 | \$5.4 | \$196.5 | \$203.4 |

(1) Excludes fixed maturities designated as held-to-maturity. Classified by NAIC or equivalent rating.

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The following table sets forth the fair value of our international insurance operations' portfolio of liquid assets, as of the dates indicated.

|                                    | March 31, 2018                    |                   |              | Total    | December 31, 2017 |
|------------------------------------|-----------------------------------|-------------------|--------------|----------|-------------------|
|                                    | Prudential of Japan (in billions) | Gibraltar Life(1) | All Other(2) |          |                   |
| Cash and short-term investments    | \$ 1.3                            | \$ 3.5            | \$ 1.4       | \$ 6.2   | \$ 4.2            |
| Fixed maturity investments(3):     |                                   |                   |              |          |                   |
| High or highest quality(4)         | 39.1                              | 91.5              | 18.9         | 149.5    | 145.2             |
| Other than high or highest quality | 1.0                               | 3.4               | 1.7          | 6.1      | 6.0               |
| Subtotal                           | 40.1                              | 94.9              | 20.6         | 155.6    | 151.2             |
| Public equity securities           | 1.9                               | 1.8               | 0.9          | 4.6      | 4.5               |
| Total                              | \$ 43.3                           | \$ 100.2          | \$ 22.9      | \$ 166.4 | \$ 159.9          |

(1) Includes PGFL.

(2) Represents our international insurance operations, excluding Japan.

(3) Excludes fixed maturities designated as held-to-maturity. Classified by NAIC or equivalent rating.

(4) As of March 31, 2018, \$110.5 billion, or 74%, were invested in government or government agency bonds.

#### Liquidity associated with other activities

#### Hedging activities associated with Individual Annuities

For the portion of our Individual Annuities' ALM strategy executed through hedging, as well as the capital hedge program, we enter into a range of exchange-traded, cleared and other OTC equity and interest rate derivatives in order to hedge certain capital market risks related to more severe market conditions. For a full discussion of our Individual Annuities' risk management strategy, see "—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities." This portion of our Individual Annuities' ALM strategy and capital hedge program requires access to liquidity to meet payment obligations relating to these derivatives, such as payments for periodic settlements, purchases, maturities and terminations. These liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality and policyholder behavior.

The hedging portion of our Individual Annuities' ALM strategy and capital hedge program may also result in derivative related collateral postings to (when we are in a net pay position) or from (when we are in a net receive position) counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs when we are in a net pay position. As of March 31, 2018, the derivatives comprising the hedging portion of our ALM strategy and capital hedge program were in a net receive position of \$2.6 billion compared to a net receive position of \$3.3 billion as of December 31, 2017. The change in collateral position was primarily driven by an increase in interest rates.

#### Foreign exchange hedging activities

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the yen. Our overall yen hedging strategy 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. The hedging strategy includes two primary components:



**Income Hedges**—We hedge a portion of our prospective yen-based earnings streams by entering into external forward currency derivative contracts that effectively fix the currency exchange rates for that portion of earnings, thereby reducing volatility from foreign currency exchange rate movements. As of March 31, 2018, we have hedged 100%, 79% and 30% of expected yen-based earnings for 2018, 2019 and 2020, respectively.

**Equity Hedges**—We hold both internal and external hedges primarily to hedge our U.S. dollar-equivalent equity. These hedges also mitigate volatility in the solvency margins of yen-based subsidiaries resulting from changes in the market value of their U.S. dollar-denominated investments hedging our U.S. dollar-equivalent equity attributable to changes in the yen-U.S. dollar exchange rate.

For additional information on our hedging strategy, see “—Results of Operations—Impact of Foreign Currency Exchange Rates.”

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Cash settlements from these hedging activities result in cash flows between subsidiaries of Prudential Financial and either international-based subsidiaries or external parties. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. For example, a significant yen depreciation over an extended period of time could result in net cash inflows, while a significant yen appreciation could result in net cash outflows. The following tables set forth information about net cash settlements and the net asset or liability resulting from these hedging activities related to the yen and other currencies.

|                             | Three Months<br>Ended<br>March 31,<br>2018 2017<br>(in millions) |          |
|-----------------------------|--|----------|
| Cash Settlements:           |  |          |
| Income Hedges (External)(1) | \$(23 )  | \$ 1     |
| Equity Hedges:              |  |          |
| Internal(2)                 | 17   | 0        |
| External                    | 108  | (53 )    |
| Total Equity Hedges         | 125  | (53 )    |
| Total Cash Settlements      | \$ 102   | \$ (52 ) |
|                             | As of<br>March December<br>31, 31,<br>2018 2017<br>(in millions) |          |
| Assets (Liabilities):       |  |          |
| Income Hedges (External)(3) | \$(109)  | \$ (42 ) |
| Equity Hedges:              |  |          |
| Internal(2)                 | (157 )   | 623      |
| External                    | 129  | 303      |
| Total Equity Hedges(4)      | (28 )  | 926      |
| Total Assets (Liabilities)  | \$(137)  | \$ 884   |

Includes non-yen related cash settlements of \$(12) million, primarily denominated in Korean won, Australian (1) dollar, and Brazilian real and \$(1) million, primarily denominated in Korean won and Brazilian real, for the three months ended March 31, 2018 and 2017, respectively.

(2) Represents internal transactions between international-based and U.S.-based entities. Amounts noted are from the U.S.-based entities' perspectives.

Includes non-yen related liabilities of \$(62) million, primarily denominated in Korean won and Brazilian real, and (3) liabilities of \$(65) million, primarily denominated in Korean won and Australian dollar, as of March 31, 2018 and December 31, 2017, respectively.

As of March 31, 2018, approximately \$203 million, \$347 million and \$(578) million of the net market value is (4) scheduled to settle in 2018, 2019 and thereafter, respectively. The net market value of the assets (liabilities) will vary with changing market conditions to the extent there are no corresponding offsetting positions.

## Investment Management operations

The principal sources of liquidity for our fee-based investment management businesses include asset management fees and commercial mortgage origination and servicing fees. The principal uses of liquidity include general and administrative expenses and distributions of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee-based investment management businesses relate to their profitability, which is impacted by

market conditions and our investment management performance. We believe the cash flows from our fee-based investment management businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our strategic investments held in our investment management businesses are cash flows from investments, the ability to liquidate investments, and available borrowing lines from internal sources, including Prudential Financial and Prudential Funding, LLC (“Prudential Funding”), a wholly-owned subsidiary of Prudential Insurance. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults. There have been no material changes to the liquidity position of our investment management operations since December 31, 2017.

#### Alternative Sources of Liquidity

In addition to asset-based financing as discussed below, Prudential Financial and certain subsidiaries have access to other sources of liquidity, including syndicated, unsecured committed credit facilities, membership in the Federal Home Loan Banks, commercial paper programs, and a put option agreement. For more information on these sources of liquidity, see Note 9 to the

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Unaudited Interim Consolidated Financial Statements contained herein and Note 14 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

## Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls, to earn spread income, to borrow funds, or to facilitate trading activity. These programs are primarily driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments (primarily corporate bonds), mortgage loans and fixed maturities (primarily collateralized loan obligations and other structured securities), with a weighted average life at time of purchase by the short-term portfolios of four years or less. Floating rate assets comprise the majority of our short-term spread portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

The following table sets forth our liabilities under asset-based or secured financing programs as of the dates indicated.

|   | March 31, 2018   |          |              | December 31, 2017 |          |              |
|---|------------------|----------|--------------|-------------------|----------|--------------|
|   | PFI              |          |              | PFI               |          |              |
|   | Excluding        | Closed   |              | Excluding         | Closed   |              |
|   | Closed Block     | Block    | Consolidated | Closed Block      | Block    | Consolidated |
|   | Block            | Division | Division     | Block             | Division | Division     |
|   | Division         |          |              | Division          |          |              |
|   | (\$ in millions) |          |              |                   |          |              |
| Securities sold under agreements to repurchase  | \$5,337          | \$3,296  | \$ 8,633     | \$4,960           | \$3,440  | \$ 8,400     |
| Cash collateral for loaned securities   | 3,188            | 1,124    | 4,312        | 3,203             | 1,151    | 4,354        |
| Securities sold but not yet purchased   | 5                | 0        | 5            | 3                 | 0        | 3            |
| Total(1)  | \$8,530          | \$4,420  | \$ 12,950    | \$8,166           | \$4,591  | \$ 12,757    |
| Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral | \$3,796          | \$1,118  | \$ 4,914     | \$3,838           | \$1,393  | \$ 5,231     |
| Weighted average maturity, in days(2)   | 27               | 6        |              | 12                | 3        |              |

(1) The daily weighted average outstanding balance for the three months ended March 31, 2018 was \$8,877 million for PFI excluding the Closed Block division, and \$4,748 million for the Closed Block division.

(2) Excludes securities that may be returned to the Company overnight.

As of March 31, 2018, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of \$112.1 billion, of which \$13.1 billion were on loan. Taking into account market conditions and outstanding loan balances as of March 31, 2018, we believe approximately \$15.8 billion of the remaining eligible assets are readily lendable, including approximately \$11.5 billion relating to PFI excluding the Closed Block division, of which \$3.0 billion relates to certain separate accounts and may only be used for financing activities related to those accounts, and the remaining \$4.3 billion relating to the Closed Block division.

## Financing Activities

As of March 31, 2018, total short-term and long-term debt of the Company on a consolidated basis was \$19.5 billion, an increase of \$974 million from December 31, 2017. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such actions will depend on prevailing market conditions, our liquidity position and other factors.

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| Borrowings:                               | March 31, 2018                           |              |              | December 31, 2017       |              |              |
|---|--|--------------|--------------|-------------------------|--------------|--------------|
|   | Prudential<br>Financial<br>(in millions) | Subsidiaries | Consolidated | Prudential<br>Financial | Subsidiaries | Consolidated |
| General obligation short-term debt:       |  |              |              |                         |              |              |
| Commercial paper                          | \$25                                     | \$ 496       | \$ 521       | \$50                    | \$ 500       | \$ 550       |
| Current portion of long-term debt         | 830                                      | 0            | 830          | 830                     | 0            | 830          |
| Subtotal                                  | 855                                      | 496          | 1,351        | 880                     | 500          | 1,380        |
| General obligation long-term debt:        |  |              |              |                         |              |              |
| Senior debt                               | 9,733                                    | 172          | 9,905        | 8,738                   | 173          | 8,911        |
| Junior subordinated debt                  | 6,568                                    | 59           | 6,627        | 6,566                   | 56           | 6,622        |
| Surplus notes(1)                          | 0  | 841          | 841          | 0                       | 840          | 840          |
| Subtotal                                  | 16,301                                   | 1,072        | 17,373       | 15,304                  | 1,069        | 16,373       |
| Total general obligations                 | 17,156                                   | 1,568        | 18,724       | 16,184                  | 1,569        | 17,753       |
| Limited and non-recourse borrowings(2):   |  |              |              |                         |              |              |
| Current portion of long term debt         | 0  | 32           | 32           | 0                       | 0            | 0            |
| Long-term debt                            | 0  | 770          | 770          | 0                       | 799          | 799          |
| Total limited and non-recourse borrowings | 0  | 802          | 802          | 0                       | 799          | 799          |
| Total borrowings                          | \$17,156                                 | \$ 2,370     | \$ 19,526    | \$16,184                | \$ 2,368     | \$ 18,552    |

(1) Amounts are net of assets under set-off arrangements of \$7,599 million and \$7,287 million as of March 31, 2018, and December 31, 2017, respectively.

(2) Limited and non-recourse borrowing represents mortgage debt of our subsidiaries that has recourse only to real estate investment property.

As of March 31, 2018, and December 31, 2017, we were in compliance with all debt covenants related to the borrowings in the table above. For further information on our short- and long-term debt obligations, see Note 9 to the Unaudited Interim Consolidated Financial Statements contained herein and Note 14 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

Prudential Financial's borrowings increased \$972 million from December 31, 2017, primarily driven by the issuance of \$1 billion of senior debt, partially offset by a \$25 million decrease in commercial paper outstanding. Borrowings of our subsidiaries increased \$2 million from December 31, 2017, primarily driven by the issuance of \$23 million of mortgage debt and a \$7 million increase from foreign exchange fluctuations, partially offset by \$27 million of mortgage debt prepayments.

#### Term and Universal Life Reserve Financing

We use captive reinsurance subsidiaries to finance the portion of the statutory reserves required to be held by our domestic life insurance companies under Regulation XXX and Guideline AXXX that we consider to be non-economic. The financing arrangements involve the reinsurance of term and universal life business to our captive reinsurers and the issuance of surplus notes by those captives that are treated as capital for statutory purposes. These surplus notes are subordinated obligations, and the payment of principal on the surplus notes may only be made with prior insurance regulatory approval.

We have entered into agreements with external counterparties providing for the issuance of surplus notes by our captive reinsurers in return for the receipt of credit-linked notes ("Credit-Linked Note Structures"). Under the agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding.

The captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. As of March 31, 2018, we had Credit-Linked Note Structures with an aggregate issuance capacity of \$12,700 million, of which \$9,799 million was outstanding, as compared to an aggregate issuance capacity of \$11,100 million, of which \$9,487 million was outstanding, as of December 31, 2017. For more information on our Credit-Linked Note Structures, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Financing Activities” in our Annual Report on Form 10-K for the year ended December 31, 2017.

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The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of March 31, 2018.

| Credit-Linked Note Structures:      | Surplus Notes        |                | Outstanding          |               |
|-------------------------------------|----------------------|----------------|----------------------|---------------|
|                                     | Original Issue Dates | Maturity Dates | as of March 31, 2018 | Facility Size |
|                                     | (\$ in millions)     |                |                      |               |
| XXX                                 | 2011-2014            | 2021-2024      | \$ 1,750 (1)         | \$ 2,000      |
| AXXX                                | 2013                 | 2033           | 3,003                | 3,500         |
| XXX                                 | 2014-2017            | 2022-2034      | 2,200 (2)            | 2,200         |
| XXX                                 | 2014-2017            | 2024-2037      | 2,100                | 2,400         |
| AXXX                                | 2017                 | 2037           | 646                  | 1,000         |
| XXX                                 | 2018                 | 2038           | \$ 100               | \$ 1,600      |
| Total Credit-Linked Note Structures |                      |                | \$ 9,799             | \$ 12,700     |

(1) Prudential Financial has agreed to reimburse any amounts paid under the credit-linked notes issued in this structure.

(2) The \$2.2 billion surplus note represents an intercompany transaction that eliminates upon consolidation. Prudential Financial has agreed to reimburse amounts paid under credit-linked notes issued in this structure up to \$1.0 billion.

As of March 31, 2018, we also had outstanding an aggregate of \$3.2 billion of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$0.6 billion relates to Regulation XXX reserves and approximately \$2.6 billion relates to Guideline AXXX reserves, all of which was issued by Prudential Financial. In addition, as of March 31, 2018, for purposes of financing Guideline AXXX reserves, our captives had outstanding approximately \$4.0 billion of surplus notes that were issued to affiliates.

The NAIC's actuarial guideline known as "AG 48" requires us to hold cash and rated securities in greater amounts than we previously held to support economic reserves for certain of our term and universal life policies reinsured to a captive. The total additional asset requirement from the inception of AG 48 through December 31, 2017 is approximately \$1.8 billion, which we funded using a combination of existing assets and newly purchased assets sourced from affiliated financing. We believe we have sufficient internal resources to satisfy the additional asset requirement through 2018.

The Company adopted principles-based reserving for its guaranteed universal life products and introduced updated versions of these products in 2017. The updated products are expected to support the principles-based statutory reserve level without the need for financing through captive reinsurance. The Company is continuing to assess the impact of principles-based reserving on projected statutory reserve levels and product pricing for its remaining portfolio of individual life product offerings.

## Ratings

The following is a summary of the significant changes or actions in ratings and ratings outlooks for our Company as well as the life insurance industry and sector, that have occurred subsequent to the filing of our Annual Report on Form 10-K for the year ended December 31, 2017.

In April 2018, S&P revised the company outlook for Prudential of Japan, Gibraltar Life and PGFL from Stable to Positive. A rating agency company outlook generally indicates a medium- or long-term trend (generally six months to



two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice.

#### Off-Balance Sheet Arrangements

#### Guarantees, Other Contingencies and Other Contingent Commitments

In the course of our business, we provide certain guarantees and indemnities to third-parties pursuant to which we may be contingently required to make payments in the future. We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. See “—Commitments and Guarantees” within Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information. For further discussion of certain of these commitments that relate to our separate accounts, also see “—Liquidity—Liquidity associated with other activities—Investment Management operations.”

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Other Off-Balance Sheet Arrangements

In November 2013, we entered into a put option agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to \$1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust. In 2014, Prudential Financial entered into financing transactions, pursuant to which it issued \$500 million of limited recourse notes and, in return, obtained \$500 million of asset-backed notes from a Delaware master trust and ultimately contributed the asset-backed notes to its subsidiary, PRIAC. As of March 31, 2018, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited recourse notes. Accordingly, none of the notes are reflected in the Company's Unaudited Interim Consolidated Financial Statements as of that date.

Other than as described above, we do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, other than the agreements referred to above, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. As of March 31, 2018, there have been no material changes in our economic exposure to market risk from December 31, 2017, a description of which may be found in our Annual Report on Form 10-K, for the year ended December 31, 2017, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," filed with the Securities and Exchange Commission. See Item 1A, "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2017, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

ITEM 4. CONTROLS AND PROCEDURES

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company's management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of March 31, 2018. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2018, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended March 31, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II—OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

See Note 14 to the Unaudited Interim Consolidated Financial Statements under “—Litigation and Regulatory Matters” for a description of certain pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, which is incorporated herein by reference.

## ITEM 1A. RISK FACTORS

You should carefully consider the risks described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward-looking statements made by, or on behalf of, the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “Forward-Looking Statements” and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table provides information about purchases by the Company during the three months ended March 31, 2018, of its Common Stock:

| Period                                     | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program(2) | Approximate Dollar Value of Shares that May Yet Be Purchased under the Program(2) |
|--|-------------------------------------|------------------------------|---|---|
| January 1, 2018 through January 31, 2018   | 1,032,508                           | \$ 121.57                    | 1,028,274   |   |
| February 1, 2018 through February 28, 2018 | 1,725,779                           | \$ 108.77                    | 1,135,240   |   |
| March 1, 2018 through March 31, 2018       | 1,176,060                           | \$ 106.76                    | 1,170,930   |   |
| Total                                      | 3,934,347                           | \$ 111.53                    | 3,334,444   | \$1,125,000,000   |

Includes shares of Common Stock withheld from participants for income tax withholding purposes whose shares of (1) restricted stock units vested during the period. Such restricted stock units were originally issued to participants pursuant to the Prudential Financial Inc. Omnibus Incentive Plan.

In December 2017, Prudential Financial’s Board of Directors authorized the Company to repurchase, at (2) management’s discretion, up to \$1.5 billion of its outstanding Common Stock during the period from January 1, 2018 through December 31, 2018.

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ITEM 6. EXHIBITS

EXHIBIT INDEX

Annual Incentive Payment Criteria for Executive Officers effective for awards in 2018 in respect of 2017 and for 10.1 subsequent years. Incorporated by reference to Exhibit 10.1 to the Registrant's February 13, 2018 Current Report on Form 8-K.

Form of Terms and Conditions relating to awards to executive officers in 2018 under the 2016 Omnibus Incentive Plan of restricted stock units, stock options, performance shares, performance units and book value units under 10.2 the 2018 Long-Term Incentive Program. Incorporated by reference to Exhibit 10.2 to the Registrant's February 13, 2018 Current Report on Form 8-K.

Form of Consent to the addition of the Diversity and Inclusion Goal and the Diversity and Inclusion Performance Modifier to performance shares and performance units awarded to executive officers in 2018. 10.3

12.1 Statement of Ratio of Earnings to Fixed Charges.

18.1 Letter from PricewaterhouseCoopers LLP, dated May 4, 2018, regarding change in accounting principle.

31.1 Section 302 Certification of the Chief Executive Officer.

31.2 Section 302 Certification of the Chief Financial Officer.

32.1 Section 906 Certification of the Chief Executive Officer.

32.2 Section 906 Certification of the Chief Financial Officer.

101.INS - XBRL Instance Document.

101.SCH - XBRL Taxonomy Extension Schema Document.

101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB - XBRL Taxonomy Extension Label Linkbase Document.

101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF - XBRL Taxonomy Extension Definition Linkbase Document.

Prudential Financial, Inc. will furnish upon request a copy of any exhibit listed above upon the payment of a reasonable fee covering the expense of furnishing the copy. Requests should be directed to:

Shareholder Services  
Prudential Financial, Inc.  
751 Broad Street, 21st Floor  
Newark, New Jersey 07102



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## GLOSSARY

Throughout this Quarterly Report on Form 10-Q, the Company may use certain abbreviations, acronyms and terms which are defined below.

## Prudential Entities

|                |   |                           |   |
|----------------|---|---------------------------|---|
| Company        | Prudential Financial, Inc. and its subsidiaries                           | PRIAC                     | Prudential Retirement Insurance and Annuity Company |
| Gibraltar Life | Gibraltar Life Insurance Company, Ltd.                                    | Pruco Life                | Pruco Life Insurance Company                        |
| PALAC          | Prudential Annuities Life Assurance Corporation                           | Prudential                | Prudential Financial, Inc. and its subsidiaries     |
| PFI            | Prudential Financial, Inc. and its subsidiaries                           | Prudential Financial      | Prudential Financial, Inc.                          |
| PGFL           | Prudential Gibraltar Financial Life Insurance Co., Ltd.                   | Prudential Funding        | Prudential Funding, LLC                             |
| PGIM           | The Global Investment Management Businesses of Prudential Financial, Inc. | Prudential Insurance/PICA | The Prudential Insurance Company of America         |
| PHJ            | Prudential Holdings of Japan, Inc.  | Prudential of Japan       | The Prudential Life Insurance Company, Ltd.         |
| PLIC           | Prudential Legacy Insurance Company of New Jersey                         | Registrant                | Prudential Financial, Inc.                          |
| PLNJ           | Pruco Life Insurance Company of New Jersey                                |                           |   |

## Defined Terms

|                              |  |                               |   |
|------------------------------|--|-------------------------------|---|
| Board                        | Prudential Financial's Board of Directors  | Moody's                       | Moody's Investor Service, Inc.  |
| Closed Block                 | Certain in force traditional domestic participating insurance and annuity products and corresponding assets that are used for the payment of benefits and policyholders' dividends on these products | Other Postretirement Benefits | Certain health care and life insurance benefits provided by the Company for retired employees, their beneficiaries and covered dependents |
| Designated Financial Company | A non-bank financial company that is subject to stricter standards and supervision   | Pension Benefits              | Funded and non-funded non-contributory defined benefit pension plans which cover substantially all of the Company's employees             |
| Dodd-Frank Exchange Act      | Dodd-Frank Wall Street Reform and Consumer Protection Act<br>The Securities Exchange Act of 1934   | Regulation XXX<br>S&P         | Valuation of Life Insurance Policies Model Regulation<br>Standard & Poor's Rating Services  |
| Fitch                        | Fitch Ratings Inc.   | Tax Act of 2017               | The United States Tax Cuts and Jobs Act of 2017   |
| Framework                    | Prudential's capital protection framework  | U.S. GAAP                     | Accounting principles generally accepted in the United States of America  |
| Guideline AXXX               | The Application of the Valuation of Life Insurance Policies Model Regulation   |                               |   |



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## Acronyms

|        |  |          |   |
|--------|--|----------|---|
| AG 48  | Actuarial Guideline No. 48                                       | IRS      | Internal Revenue Service  |
| ALM    | Asset Liability Management                                       | LIBOR    | London Inter-Bank Offered Rate  |
| AOCI   | Accumulated Other Comprehensive Income                           | LPs/LLCs | Limited Partnerships and Limited Liability Companies                                  |
| ASCL   | Assets Supporting Experience-rated Contractholder Liabilities    | MD&A     | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| ASU    | Accounting Standards Updates                                     | NAIC     | National Association of Insurance Commissioners                                       |
| bps    | Basis Points   | NAV      | Net Asset Value   |
| DAC    | Deferred Policy Acquisition Costs                                | NJDOBI   | New Jersey Department of Banking and Insurance  |
| DOL    | U.S. Department of Labor   | NPR      | Non-Performance Risk  |
| DSI    | Deferred Sales Inducements                                       | OCI      | Other Comprehensive Income (Loss)   |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortization   | OTC      | Over-The-Counter  |
| FASB   | Financial Accounting Standards Board                             | OTTI     | Other-Than-Temporary Impairments  |
| FSA    | Financial Services Agency (an agency of the Japanese government) | PDI      | Prudential Defined Income Variable Annuity  |
| GICs   | Guaranteed Investment Contracts                                  | RBC      | Risk-Based Capital  |
| GMAB   | Guaranteed Minimum Accumulation Benefits                         | SEC      | Securities and Exchange Commission  |
| GMDB   | Guaranteed Minimum Death Benefits                                | SVO      | Securities Valuation Office   |
| GMIWB  | Guaranteed Minimum Income and Withdrawal Benefits                | U.S.     | The United States of America  |
| GMWB   | Guaranteed Minimum Withdrawal Benefits                           | VIEs     | Variable Interest Entities  |
| G-SII  | Global Systemically Important Insurer                            | VOBA     | Value of Business Acquired  |
| HDI    | Highest Daily Lifetime Income                                    |          |   |



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Prudential Financial, Inc.

By: /s/ ROBERT M. FALZON

Robert M. Falzon

Executive Vice President and Chief Financial Officer

(Authorized signatory and principal financial officer)

Date: May 4, 2018