

PRUDENTIAL FINANCIAL INC

Form 10-Q

November 03, 2017

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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 September 30, 2017

OR

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

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

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey 22-3703799

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

Incorporation or Organization) Identification Number)

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

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

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

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

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

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

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

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Forward-Looking Statements

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

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## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## PRUDENTIAL FINANCIAL, INC.

## Unaudited Interim Consolidated Statements of Financial Position

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

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

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

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

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## PRUDENTIAL FINANCIAL, INC.

## Unaudited Interim Consolidated Statements of Operations

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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## PRUDENTIAL FINANCIAL, INC.

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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## PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity

Nine Months Ended September 30, 2017 and 2016 (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,<br>Inc.<br>Equity | Noncontro<br>l 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               |
| Common Stock acquired   |                                   |                                  |                      | (937)                                  |   | (937)   |                          | (937)           |
| Contributions from noncontrolling interests                   |                                   |                                  |                      |  |   |   | 7                        | 7               |
| Distributions to noncontrolling interests                     |                                   |                                  |                      |  |   |   | (31)                     | (31)            |
| Consolidations/(deconsolidations) of noncontrolling interests |                                   |                                  |                      |  |   |   | (1)                      | (1)             |
| Stock-based compensation programs                             |                                   | 110                              |                      | 241                                    |   | 351   |                          | 351             |
| Dividends declared on Common Stock                            |                                   |                                  | (979)                |  |   | (979)   |                          | (979)           |
| Comprehensive income:   |                                   |                                  |                      |  |   |   |                          |                 |
| Net income (loss)   |                                   |                                  | 4,098                |  |   | 4,098   | 11                       | 4,109           |
| Other comprehensive income (loss), net of tax                 |                                   |                                  |                      |  | 1,977   | 1,977   | (19)                     | 1,958           |
| Total comprehensive income (loss)                             |                                   |                                  |                      |  |   | 6,075   | (8)                      | 6,067           |
| Balance, September 30, 2017                                   | \$6                               | \$24,721                         | \$25,060             | \$(16,012)                             | \$16,598  | \$50,373  | \$192                    | \$50,565        |

|   | Prudential Financial, Inc. Equity |                                  |                      |  |   |   |                          |                 |
|---|-----------------------------------|----------------------------------|----------------------|--|---|---|--------------------------|-----------------|
|   | Common<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,<br>Inc.<br>Equity | Noncontro<br>l Interests | Total<br>Equity |
| Balance, December 31, 2015                                    | \$6                               | \$24,482                         | \$18,931             | \$(13,814)                             | \$12,285  | \$41,890  | \$33                     | \$41,923        |
| Cumulative effect of adoption of accounting changes           |                                   |                                  | 11                   |  |   | 11  | (30)                     | (19)            |
| Common Stock acquired   |                                   |                                  |                      | (1,375)                                |   | (1,375)   |                          | (1,375)         |
| Class B Stock repurchase adjustment                           |                                   |                                  | (119)                |  |   | (119)   |                          | (119)           |
| Contributions from noncontrolling interests                   |                                   |                                  |                      |  |   |   | 9                        | 9               |
| Distributions to noncontrolling interests                     |                                   |                                  |                      |  |   |   | (30)                     | (30)            |
| Consolidations (deconsolidations) of noncontrolling interests |                                   |                                  |                      |  |   |   | 471                      | 471             |
| Stock-based compensation programs                             |                                   | 38                               |                      | 200                                    |   | 238   |                          | 238             |
|   |                                   |                                  | (938)                |  |   | (938)   |                          | (938)           |

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Dividends declared on Common  
Stock

Comprehensive income:

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

See Notes to Unaudited Interim Consolidated Financial Statements

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## PRUDENTIAL FINANCIAL, INC.

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

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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

Basis of Presentation

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

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

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

Use of Estimates

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

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

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

#### Out of Period Adjustments

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

## Reclassifications

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

## 2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

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

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

## Recent Accounting Pronouncements

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

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

ASU adopted during the nine months ended September 30, 2017

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



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

Statements.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

instruments.

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

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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)   | <p>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).</p> | <p>January 1, 2019 using the modified retrospective method (with early adoption permitted).</p>   | <p>The Company is currently assessing the impact of the ASU on the Company’s Consolidated Financial Statements and Notes to the Consolidated Financial Statements.</p> |
| ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments | <p>This ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held to maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard also modifies the current OTTI standard for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces the existing standard for purchased credit deteriorated loans and debt securities.</p>  | <p>January 1, 2020 using the modified retrospective method, however prospective application is required for purchased credit deteriorated assets previously accounted for under ASU 310-30 and for debt securities for which an OTTI was recognized prior to the date of adoption. Early adoption is permitted beginning January 1, 2019.</p> | <p>The Company is currently assessing the impact of the ASU on the Company’s Consolidated Financial Statements and Notes to the Consolidated Financial Statements.</p> |
| ASU 2016-15, Statement of Cash  | <p>This ASU addresses diversity in practice in how certain cash receipts and cash payments are</p>  | <p>January 1, 2018 using the retrospective</p>  | <p>Based on the assessment</p>   |

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

Assets

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

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

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

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

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

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

**3. ACQUISITIONS**

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

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

**4. INVESTMENTS**

## Fixed Maturities and Equity Securities

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

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



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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | September 30, 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                    | \$866              | \$ 265                       | \$ 0                          | \$1,131       |
| Foreign corporate public securities         | 659                | 87                           | 0                             | 746           |
| Foreign corporate private securities(5)     | 84                 | 3                            | 0                             | 87            |
| Commercial mortgage-backed securities       | 0                  | 0                            | 0                             | 0             |
| Residential mortgage-backed securities(3)   | 475                | 36                           | 0                             | 511           |
| Total fixed maturities, held-to-maturity(5) | \$2,084            | \$ 391                       | \$ 0                          | \$2,475       |

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

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

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

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

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

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | December 31, 2016 |                              |                               |               |
|---|-------------------|------------------------------|-------------------------------|---------------|
|   | 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                    | \$839             | \$ 262                       | \$ 0                          | \$1,101       |
| Foreign corporate public securities         | 651               | 71                           | 0                             | 722           |
| Foreign corporate private securities(5)     | 81                | 4                            | 0                             | 85            |
| Commercial mortgage-backed securities       | 0                 | 0                            | 0                             | 0             |
| Residential mortgage-backed securities(3)   | 573               | 43                           | 0                             | 616           |
| Total fixed maturities, held-to-maturity(5) | \$2,144           | \$ 380                       | \$ 0                          | \$2,524       |

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

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

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

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

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

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

|  | September 30, 2017         |                               |                          |                               |               |                               |
|--|----------------------------|-------------------------------|--------------------------|-------------------------------|---------------|-------------------------------|
|  | Less Than<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 | \$5,087                    | \$ 127                        | \$4,612                  | \$ 458                        | \$9,699       | \$ 585                        |
| Obligations of U.S. states and their political subdivisions                          | 600                        | 5                             | 350                      | 14                            | 950           | 19                            |
| Foreign government bonds   | 6,687                      | 195                           | 2,229                    | 246                           | 8,916         | 441                           |
| U.S. corporate public securities   | 7,963                      | 107                           | 6,981                    | 373                           | 14,944        | 480                           |
| U.S. corporate private securities  | 4,679                      | 117                           | 1,224                    | 62                            | 5,903         | 179                           |
| Foreign corporate public securities  | 2,082                      | 21                            | 1,395                    | 82                            | 3,477         | 103                           |
| Foreign corporate private securities   | 2,270                      | 36                            | 5,346                    | 424                           | 7,616         | 460                           |
| Asset-backed securities  | 863                        | 1                             | 428                      | 14                            | 1,291         | 15                            |
| Commercial mortgage-backed securities  | 2,446                      | 22                            | 1,485                    | 57                            | 3,931         | 79                            |

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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



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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

## Trading Account Assets Supporting Insurance Liabilities

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

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

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

(2)

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Other Trading Account Assets

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

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

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

## Concentrations of Financial Instruments

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

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

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

| September 30,<br>2017 | December 31,<br>2016 |
|-----------------------|----------------------|
| Fair                  | Fair                 |

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

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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:

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

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

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

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

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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:

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

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

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

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

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

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





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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

## Commercial mortgage loans

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

## Agricultural property loans

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Total commercial mortgage and agricultural property loans

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

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

## Commercial mortgage loans

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

## Agricultural property loans

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

## Total commercial mortgage and agricultural property loans

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

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

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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:

| September 30, 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   | \$51,424               | \$ 0                   | \$ 0                                    | \$ 0              | \$ 0           | \$51,424                 | \$ 47 |
| Agricultural property loans | 3,165                  | 0                      | 0                                       | 2                 | 2              | 3,167                    | 25    |
| Residential property loans  | 202                    | 4                      | 0                                       | 4                 | 8              | 210                      | 4     |
| Other collateralized loans  | 6                      | 0                      | 0                                       | 0                 | 0              | 6                        | 0     |
| Uncollateralized loans      | 675                    | 0                      | 0                                       | 0                 | 0              | 675                      | 0     |
| Total                       | \$55,472               | \$ 4                   | \$ 0                                    | \$ 6              | \$ 10          | \$55,482                 | \$ 76 |

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

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

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

| December 31, 2016           |                        |                        |   |                   |                |                          |       |
|-----------------------------|------------------------|------------------------|---|-------------------|----------------|--------------------------|-------|
| Current                     | 30-59 Days<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   | \$49,006               | \$ 21                  | \$ 0                                    | \$ 0              | \$ 21          | \$49,027                 | \$ 49 |
| Agricultural property loans | 2,956                  | 0                      | 0                                       | 2                 | 2              | 2,958                    | 2     |
| Residential property loans  | 241                    | 7                      | 1                                       | 3                 | 11             | 252                      | 3     |
| Other collateralized loans  | 10                     | 0                      | 0                                       | 0                 | 0              | 10                       | 0     |
| Uncollateralized loans      | 638                    | 0                      | 0                                       | 0                 | 0              | 638                      | 0     |
| Total                       | \$52,851               | \$ 28                  | \$ 1                                    | \$ 5              | \$ 34          | \$52,885                 | \$ 54 |

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

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Other Long-Term Investments

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

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

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

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

## Net Investment Income

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

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

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





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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Realized Investment Gains (Losses), Net

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

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

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

## Net Unrealized Gains (Losses) on Investments

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Repurchase Agreements and Securities Lending

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

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

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

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

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

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

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

## 5. VARIABLE INTEREST ENTITIES

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Consolidated Variable Interest Entities

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

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

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

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

## Unconsolidated Variable Interest Entities

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 6. CLOSED BLOCK

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

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

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

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Information regarding the policyholder dividend obligation is as follows:

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

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

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

## 7. EQUITY

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

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



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

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

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

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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.

## Class B Stock

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

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

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

## Accumulated Other Comprehensive Income (Loss)

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

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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(1) All amounts are shown before tax.

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

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

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

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

#### Net Unrealized Investment Gains (Losses)

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

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

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

All Other Net Unrealized Investment Gains (Losses) in AOCI

| Net Unrealized Investment Gains (Losses) on DAC, DSI, VOBA and Reinsurance Recoverables | Future Policy Benefits, Policyholders' Account Balances and Reinsurance Payables | Policyholders' Dividends | Deferred Income Tax (Liability) Benefit | Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses) |
|---|--|--------------------------|---|---|
|---|--|--------------------------|---|---|

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|   | (in millions) |             |             |             |             |           |
|---|---------------|-------------|-------------|-------------|-------------|-----------|
| Balance, December 31, 2016  | \$32,420      | \$ (1,056 ) | \$ (1,136 ) | \$ (2,980 ) | \$ (9,234 ) | \$ 18,014 |
| Net investment gains (losses) on investments arising during the period  | 4,031         |             |             |             | (1,364 )    | 2,667     |
| Reclassification adjustment for (gains) losses included in net income   | (1,254 )      |             |             |             | 424         | (830 )    |
| Reclassification adjustment for OTTI losses excluded from net income <sup>(2)</sup>   | 20            |             |             |             | (7 )        | 13        |
| Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables   |               | (360 )      |             |             | 133         | (227 )    |
| Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances and reinsurance payables |               |             | (65 )       |             | 20          | (45 )     |
| Impact of net unrealized investment (gains) losses on policyholders' dividends  |               |             |             | (503 )      | 176         | (327 )    |
| Balance, September 30, 2017   | \$35,217      | \$ (1,416 ) | \$ (1,201 ) | \$ (3,483 ) | \$ (9,852 ) | \$ 19,265 |

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 8. EARNINGS PER SHARE

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

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|   | Nine Months Ended September 30,<br>2017 |                            | 2016                |         |                            |                     |
|---|---|----------------------------|---------------------|---------|----------------------------|---------------------|
|   | Income                                  | Weighted Average<br>Shares | Per Share<br>Amount | Income  | Weighted Average<br>Shares | Per Share<br>Amount |
| (in millions, except per share amounts)   |   |                            |                     |         |                            |                     |
| Basic earnings per share  |   |                            |                     |         |                            |                     |
| Net income (loss)   | \$4,109                                 |                            |                     | \$4,126 |                            |                     |
| Less: Income (loss) attributable to noncontrolling interests  | 11                                      |                            |                     | 42      |                            |                     |
| Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards         | 50                                      |                            |                     | 47      |                            |                     |
| Net income (loss) attributable to Prudential Financial available to holders of Common Stock                       | \$4,048                                 | 428.1                      | \$ 9.46             | \$4,037 | 440.7                      | \$ 9.16             |
| Effect of dilutive securities and compensation programs   |   |                            |                     |         |                            |                     |
| Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic    | \$50                                    |                            |                     | \$47    |                            |                     |
| Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted | 50                                      |                            |                     | 46      |                            |                     |
| Stock options   |   | 2.2                        |                     |         | 1.7                        |                     |
| Deferred and long-term compensation programs  |   | 1.0                        |                     |         | 0.9                        |                     |
| Exchangeable Surplus Notes  | 13                                      | 5.8                        |                     | 13      | 5.6                        |                     |
| Diluted earnings per share  |   |                            |                     |         |                            |                     |
| Net income (loss) attributable to Prudential Financial available to holders of Common Stock                       | \$4,061                                 | 437.1                      | \$ 9.29             | \$4,051 | 448.9                      | \$ 9.02             |

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

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

  

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

## Short-term Debt

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

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

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

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

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

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

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

## Long-term Debt

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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

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

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

**Surplus Notes**

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

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

#### Senior Notes

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

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

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

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## Junior Subordinated Notes

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

## 10. EMPLOYEE BENEFIT PLANS

## Pension and Other Postretirement Plans

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

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

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

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

| Nine Months Ended September 30, |                               |
|---------------------------------|-------------------------------|
| Pension Benefits                | Other Postretirement Benefits |



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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

## 11. SEGMENT INFORMATION

### Segments

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

### Adjusted Operating Income

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

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

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

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

million for the Individual Life segment in those periods.

Reconciliation of adjusted operating income and net income (loss)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

## Reconciliation of select financial information

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

|  | Three Months Ended | Nine Months Ended | September 30, 2017 | September 30, 2016 |
|--|--------------------|-------------------|--------------------|--------------------|
| Asset Management segment intersegment revenues | \$181              | \$173             | \$534              | \$504              |

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

## 12. INCOME TAXES

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

### 13. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

(3)

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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

As of September 30, 2017

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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

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

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

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

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

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

The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of September 30, (9) 2017 and December 31, 2016, the minimum withdrawal rate assumption is 78% and the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.

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 (10) 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, 2016.

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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

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

Derivative Fair Value Information

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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



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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

**Fair Value Option**

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

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

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 |
|--|--|---|--|---|
|  | (in millions)  |   |  |   |

Assets:

Commercial mortgage and other loans:

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

## Fair Value of Financial Instruments

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

**14. DERIVATIVE INSTRUMENTS**

## Types of Derivative Instruments and Derivative Strategies

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Primary Risks Managed by Derivatives

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

## Offsetting Assets and Liabilities

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

|  | September 30, 2017  |  |  |  |               |
|--|---|--|--|--|---------------|
|  | Gross<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)                                 | \$11,566  | \$ (9,833 )  | \$ 1,733   | \$ (1,422 )                                | \$ 311        |
| Securities purchased under agreement to resell | 576   | 0  | 576  | (576 )                                     | 0             |
| Total assets                                   | \$12,142  | \$ (9,833 )  | \$ 2,309   | \$ (1,998 )                                | \$ 311        |
| Offsetting of Financial Liabilities:           |   |  |  |  |               |
| Derivatives(1)                                 | \$6,219   | \$ (5,505 )  | \$ 714   | \$ (629 )                                  | \$ 85         |
| Securities sold under agreement to repurchase  | 8,145   | 0  | 8,145  | (8,145 )                                   | 0             |
| Total liabilities                              | \$14,364  | \$ (5,505 )  | \$ 8,859   | \$ (8,774 )                                | \$ 85         |

|                                 | December 31, 2016   |   |  |  |               |
|---------------------------------|---|---|--|--|---------------|
|                                 | Gross<br>Amounts<br>of<br>Recognized<br>Financial<br>Instruments<br>(in millions) | Gross<br>Amounts<br>Offset in the<br>Statements<br>of 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: |   |   |  |  |               |

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

## Cash Flow, Fair Value and Net Investment Hedges

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

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

|   | Three Months Ended September 30, 2017       |                             |                 |                     |   |         |
|---|---|-----------------------------|-----------------|---------------------|---|---------|
|   | Realized<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)                               |                             |                 |                     |   |         |
| <b>Derivatives Designated as Hedge Accounting</b>     |   |                             |                 |                     |   |         |
| <b>Instruments:</b>                                   |   |                             |                 |                     |   |         |
| <b>Fair value hedges</b>                              |   |                             |                 |                     |   |         |
| Interest Rate   | \$3   | \$ (4 )                     | \$0             | \$ 0                | \$ 0  | \$ 0    |
| Currency  | (2 )  | 0                           | 0               | 0                   | 0   | 0       |
| Total fair value hedges                               | 1   | (4 )                        | 0               | 0                   | 0   | 0       |
| <b>Cash flow hedges</b>                               |   |                             |                 |                     |   |         |
| Interest Rate   | 0   | 0                           | 0               | (1 )                | 0   | 1       |
| Currency/Interest Rate                                | 0   | 50                          | (108 )          | 0                   | 0   | (447 )  |
| Total cash flow hedges                                | 0   | 50                          | (108 )          | (1 )                | 0   | (446 )  |
| <b>Net investment hedges</b>                          |   |                             |                 |                     |   |         |
| Currency  | 0   | 0                           | 0               | 0                   | 0   | (2 )    |
| Currency/Interest Rate                                | 0   | 0                           | 0               | 0                   | 0   | 0       |
| Total net investment hedges                           | 0   | 0                           | 0               | 0                   | 0   | (2 )    |
| <b>Derivatives Not Qualifying as Hedge Accounting</b> |   |                             |                 |                     |   |         |
| <b>Instruments:</b>                                   |   |                             |                 |                     |   |         |
| Interest Rate   | 137   | 0                           | 0               | 0                   | 0   | 0       |
| Currency  | (113 )                                      | 0                           | 1               | 0                   | 0   | 0       |
| Currency/Interest Rate                                | (93 )                                       | 0                           | (2 )            | 0                   | 0   | 0       |
| Credit  | (8 )  | 0                           | 0               | 0                   | 0   | 0       |
| Equity  | (604 )                                      | 0                           | 0               | 0                   | 0   | 0       |

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

|  | Three Months Ended September 30, 2016       |                             |                 |                     |  |           |
|--|---|-----------------------------|-----------------|---------------------|--|-----------|
|  | 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 | AOI(1)    |
|  | (in millions)                               |                             |                 |                     |  |           |
| Derivatives Designated as Hedge Accounting Instruments:        |   |                             |                 |                     |  |           |
| Fair value hedges  |   |                             |                 |                     |  |           |
| Interest Rate  | \$9   | \$ (8 )                     | \$ 0            | \$ 0                | \$ 0   | \$ 0      |
| Currency   | 7   | 0                           | 0               | 0                   | 0  | 0         |
| Total fair value hedges  | 16  | (8 )                        | 0               | 0                   | 0  | 0         |
| Cash flow hedges   |   |                             |                 |                     |  |           |
| Interest Rate  | 0   | 0                           | 0               | (1 )                | 0  | 3         |
| Currency/Interest Rate   | 0   | 31                          | 32              | 0                   | 0  | (208 )    |
| Total cash flow hedges   | 0   | 31                          | 32              | (1 )                | 0  | (205 )    |
| Net investment hedges  |   |                             |                 |                     |  |           |
| Currency   | 0   | 0                           | 0               | 0                   | 0  | (5 )      |
| Currency/Interest Rate   | 0   | 0                           | 0               | 0                   | 0  | 0         |
| Total net investment hedges                                    | 0   | 0                           | 0               | 0                   | 0  | (5 )      |
| Derivatives Not Qualifying as Hedge Accounting<br>Instruments: |   |                             |                 |                     |  |           |
| Interest Rate  | 340   | 0                           | 0               | 0                   | 0  | 0         |
| Currency   | 536   | 0                           | (1 )            | 0                   | 0  | 0         |
| Currency/Interest Rate   | (199 )                                      | 0                           | 0               | 0                   | 0  | 0         |
| Credit   | 13  | 0                           | 0               | 0                   | 0  | 0         |
| Equity   | (954 )                                      | 0                           | 0               | 0                   | 0  | 0         |
| Commodity  | 0   | 0                           | 0               | 0                   | 0  | 0         |
| Embedded Derivatives   | 583   | 0                           | 0               | 0                   | 0  | 0         |
| Total non-qualifying hedges                                    | 319   | 0                           | (1 )            | 0                   | 0  | 0         |
| Total  | \$335                                       | \$ 23                       | \$ 31           | \$ (1 )             | \$ 0   | \$ (210 ) |

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

(1) Amounts deferred in AOCI.

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

Credit Derivatives

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

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

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

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

Counterparty Credit Risk

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

## Commitments and Guarantees

## Commercial Mortgage Loan Commitments

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

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

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

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

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

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

## Indemnification of Securities Lending Transactions

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

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

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

#### Credit Derivatives Written

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



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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Guarantees of Asset Values

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

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

## Indemnification of Serviced Mortgage Loans

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

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

## Other Guarantees

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

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

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

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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 material, is disclosed, including matters discussed below. The Company estimates that as of September 30, 2017, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than \$250 million. Any estimate is not an indication of expected loss, if any, or the Company's maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

Prudential of Brazil Labor and Employment Matters

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

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

Behfarin v. Pruco Life

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

Individual Annuities, Individual Life and Group Insurance

Wells Fargo MyTerm Sales

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

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

Huffman v. The Prudential Insurance Company of America

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

Other Matters

Securities Lending Matter

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

Wood II, et al. v. PRIAC

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

Rosen v. PRIAC, et al.

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

Bouder v. PFI

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

Financial Disclosures Concerning Death Benefits and Unclaimed Property

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Residential Mortgage-Backed Securities Trustee Litigation

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

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

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

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

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

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

Summary

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

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

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



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### Overview

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

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

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

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

### Regulatory Developments

#### Fiduciary Rules

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

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

#### Regulation as a Designated Financial Company

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

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

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

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

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

### U.S. Tax Legislation

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

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

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

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

### Impact of a Low Interest Rate Environment

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

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

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

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

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

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

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

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

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

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

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

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

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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 Crediting Rates: |                             |  |   |   |   |        |
| Less than 1.00%                              | \$0.3                       | \$ 1.1                                     | \$ 0.5                                      | \$ 0.1  | \$ 0.0  | \$2.0  |
| 1.00% - 1.99%                                | 1.0                         | 9.7  | 6.0   | 1.5   | 0.2   | 18.4   |
| 2.00% - 2.99%                                | 1.3                         | 0.6  | 0.4   | 2.4   | 0.3   | 5.0    |
| 3.00% - 4.00%                                | 26.1                        | 2.7  | 0.2   | 0.1   | 0.0   | 29.1   |
| Greater than 4.00%                           | 1.0                         | 0.0  | 0.0   | 0.0   | 0.0   | 1.0    |
| Total(1)                                     | \$29.7                      | \$ 14.1                                    | \$ 7.1                                      | \$ 4.1  | \$ 0.5  | \$55.5 |
| Percentage of total                          | 54                          | % 25                                       | % 13  | % 7   | % 1   | % 100  |

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

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

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

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

**Closed Block Division**

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

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

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

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

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

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



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## Results of Operations

## Consolidated Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Segment Results of Operations

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

### Summary of Results of Operations by Segment

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

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

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

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

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

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

(5) See “—Divested Businesses.”

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



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

Results for the periods presented above reflect the following:

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

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

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

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

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

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

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

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

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

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### Segment Measures

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

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

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

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

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

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

### Impact of Foreign Currency Exchange Rates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## Impact of foreign currency exchange rate movements on earnings

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

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

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

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

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

|           |           |
|-----------|-----------|
| Three     | Nine      |
| Months    | Months    |
| Ended     | Ended     |
| September | September |
| 30,       | 30,       |



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

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

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

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

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

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

### Accounting Policies & Pronouncements

#### Application of Critical Accounting Estimates

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

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

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

#### DAC and Other Costs

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

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

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

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

## Adoption of New Accounting Pronouncements

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

## Results of Operations by Segment

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

## Individual Annuities

## Operating Results

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

| Three Months<br>Ended<br>September 30,<br>2017 |      | Nine Months<br>Ended<br>September 30,<br>2016 |      |
|--|------|---|------|
|  | 2016 | 2017  | 2016 |
| (in millions)                                  |      |   |      |

Operating results:

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

Adjusted Operating Income

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

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

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

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

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

## Revenues, Benefits and Expenses

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

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

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

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

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

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## Account Values

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

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

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

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

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

## Variable Annuity Risks and Risk Mitigants

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



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

#### Product Design Features

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### External Reinsurance

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

## Product Specific Risks and Risk Mitigants

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

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

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

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

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

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

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## Retirement

## Operating Results

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

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

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

## Adjusted Operating Income

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

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

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

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## Revenues, Benefits and Expenses

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

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

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

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

## Account Values

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



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

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

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

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

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

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

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## Asset Management

## Operating Results

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

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

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

## Adjusted Operating Income

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

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

## Revenues and Expenses

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

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

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

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

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

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

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

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

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

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

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

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

#### Assets Under Management

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

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

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

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

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

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

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

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

(3) Includes income reinvestment, where applicable.





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## Strategic Investments

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

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

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

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

## Individual Life

## Operating Results

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

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

## Adjusted Operating Income

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

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

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

## Revenues, Benefits and Expenses

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

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

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

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

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

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## Sales Results

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

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

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

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

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

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

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

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

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

## Adjusted Operating Income

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

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

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

#### Revenues, Benefits and Expenses

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



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

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

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

## Sales Results

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

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

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

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

## International Insurance Division

## International Insurance

Business Updates

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

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

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

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

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

Operating Results

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

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

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|  | Three Months<br>Ended<br>September 30,<br>2017 |         | Nine Months<br>Ended<br>September 30,<br>2017 |         |
|--|--|---------|---|---------|
|  | 2016   | 2016    | 2016  | 2016    |
|  | (in millions)                                  |         |   |         |
| Operating results:   |  |         |   |         |
| Revenues:  |  |         |   |         |
| Life Planner operations  | \$2,627  | \$2,533 | \$7,982                                       | \$7,509 |
| Gibraltar Life and Other operations  | 2,749  | 2,851   | 8,286   | 8,262   |
| Total revenues   | 5,376  | 5,384   | 16,268  | 15,771  |
| Benefits and expenses:   |  |         |   |         |
| Life Planner operations  | 2,254  | 2,142   | 6,872   | 6,365   |
| Gibraltar Life and Other operations  | 2,323  | 2,462   | 6,975   | 7,044   |
| Total benefits and expenses  | 4,577  | 4,604   | 13,847  | 13,409  |
| Adjusted operating income:   |  |         |   |         |
| Life Planner operations  | 373  | 391     | 1,110   | 1,144   |
| Gibraltar Life and Other operations  | 426  | 389     | 1,311   | 1,218   |
| Total adjusted operating income  | 799  | 780     | 2,421   | 2,362   |
| Realized investment gains (losses), net, and related adjustments                                     | 332  | 364     | 782   | 1,353   |
| Related charges  | (6)  | (9)     | (15)  | (25)    |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net            | 56   | 23      | 111   | (155)   |
| Change in experience-rated contractholder liabilities due to asset value changes                     | (56)   | (23)    | (111)   | 155     |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (15)   | (18)    | (49)  | (37)    |
| Income (loss) before income taxes and equity in earnings of operating joint ventures                 | \$1,110  | \$1,117 | \$3,139                                       | \$3,653 |

## Adjusted Operating Income

Three Month Comparison. Adjusted operating income from our Life Planner operations decreased \$18 million, including a net unfavorable impact of \$5 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding the impact of currency fluctuations, adjusted operating income decreased \$13 million, primarily reflecting higher legal expenses, partially offset by growth of business in force in our Japan and Brazil operations.

Adjusted operating income from our Gibraltar Life and Other operations increased \$37 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 \$36 million, primarily reflecting lower net expenses, including the absence of certain costs associated with employee benefits plans and office relocations incurred in the prior year period, growth of business in force and improved policyholder experience.

Nine Month Comparison. Adjusted operating income from our Life Planner operations decreased \$34 million, including a net unfavorable impact of \$27 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a \$67 million net charge in the second quarter of 2017, including impacts from unfavorable economic assumption updates driven by a lower long-term interest rate assumption in Japan, compared to a \$38 million net charge in the second quarter of 2016. Excluding the effect of these items, adjusted operating income increased \$22 million, primarily reflecting the growth of business in force in our Japan and Brazil operations,

improved policyholder experience, and a higher contribution from net investment results, primarily from higher income on non-coupon investments and higher net prepayment fee income, partially offset by lower reinvestment rates. These favorable impacts were partially offset by higher expenses including legal costs and expenses supporting business growth.

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Adjusted operating income from our Gibraltar Life and Other operations increased \$93 million, including a net unfavorable impact of \$9 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a \$21 million net benefit in the second quarter of 2017 compared to a \$34 million net charge in the second quarter of 2016. Excluding the effect of these items, adjusted operating income from our Gibraltar Life and Other operations increased \$47 million, primarily reflecting the growth of business in force, including higher earnings from our indirect investment in AFP Habitat which reflected nine months of income in the current year period compared to seven months of income in the prior year period, improved policyholder experience, and a higher contribution from net investment results, primarily from investment portfolio growth related to the growth of business in force and higher net prepayment fee income, partially offset by lower reinvestment rates. These favorable impacts were partially offset by the absence of a gain on the sale of a home office property in Japan in the prior year period.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues from our Life Planner operations increased \$94 million including a net unfavorable impact of \$68 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased \$162 million. This increase was primarily driven by higher premiums and policy charges and fee income of \$123 million related to the growth of business in force, as discussed above. Net investment income increased \$40 million, primarily reflecting higher income on non-coupon investments and investment portfolio growth related to the growth of business in force, partially offset by the impact of lower reinvestment rates.

Benefits and expenses of our Life Planner operations increased \$112 million including a net favorable impact of \$63 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased \$175 million. Policyholder benefits, including changes in reserves, increased \$103 million primarily driven by business growth. General and administrative expenses, net of capitalization, increased \$59 million primarily due to higher operating expenses, including legal costs and expenses supporting business growth.

Revenues from our Gibraltar Life and Other operations decreased \$102 million, including a net unfavorable impact of \$100 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues decreased \$2 million.

Benefits and expenses of our Gibraltar Life and Other operations decreased \$139 million, including a net favorable impact of \$101 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses decreased \$38 million. Policyholder benefits, including changes in reserves, decreased \$27 million primarily driven by improved policyholder experience, partially offset by business growth.

Nine Month Comparison. Revenues from our Life Planner operations increased \$473 million including a net unfavorable impact of \$56 million from currency fluctuations and a net benefit of \$15 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues increased \$514 million. This increase was primarily driven by higher premiums and policy charges and fee income of \$378 million related to the growth of business in force, as discussed above. Net investment income increased \$108 million, primarily reflecting higher income on non-coupon investments and higher net prepayment fee income, partially offset by lower reinvestment rates.

Benefits and expenses of our Life Planner operations increased \$507 million, including a net favorable impact of \$29 million from currency fluctuations and a net charge of \$44 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses increased \$492 million. Policyholder benefits, including changes in reserves, increased \$297 million primarily driven by business growth. General and administrative expenses, net of capitalization, increased \$154 million primarily due to higher operating expenses,

including legal costs and expenses supporting business growth.

Revenues from our Gibraltar Life and Other operations increased \$24 million, including a net unfavorable impact of \$96 million from currency fluctuations and a net benefit of \$13 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues increased \$107 million. This increase was primarily driven by higher premiums and policy charges and fee income of \$58 million related to the growth of business in force, as discussed above. Net investment income increased \$93 million, primarily reflecting investment portfolio growth related to the growth of business in force and higher net prepayment fee income, partially offset by lower reinvestment rates.

Benefits and expenses of our Gibraltar Life and Other operations decreased \$69 million, including a net favorable impact of \$87 million from currency fluctuations and a net benefit of \$42 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses increased \$60 million, driven by an increase of \$54 million in policyholder benefits, including changes in reserves, related to business growth.

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## 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 Months Ended September 30, 2017 |       | Nine Months Ended September 30, 2016 |         |
|------------------------------------|---------------------------------------|-------|--------------------------------------|---------|
|                                    | 2017                                  | 2016  | 2017                                 | 2016    |
| (in millions)                      |                                       |       |                                      |         |
| Annualized new business premiums:  |                                       |       |                                      |         |
| On an actual exchange rate basis:  |                                       |       |                                      |         |
| Life Planner operations            | \$277                                 | \$323 | \$1,098                              | \$947   |
| Gibraltar Life                     | 400                                   | 460   | 1,241                                | 1,318   |
| Total                              | \$677                                 | \$783 | \$2,339                              | \$2,265 |
| On a constant exchange rate basis: |                                       |       |                                      |         |
| Life Planner operations            | \$272                                 | \$308 | \$1,087                              | \$939   |
| Gibraltar Life                     | 399                                   | 450   | 1,244                                | 1,317   |
| Total                              | \$671                                 | \$758 | \$2,331                              | \$2,256 |

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.

|                  | Three Months Ended September 30, 2017 |       |               |         | Three Months Ended September 30, 2016 |               |       |               |         |       |
|------------------|---------------------------------------|-------|---------------|---------|---------------------------------------|---------------|-------|---------------|---------|-------|
|                  | Life & Health                         |       | Retirement(1) | Annuity | Total                                 | Life & Health |       | Retirement(1) | Annuity | Total |
|                  | (in millions)                         |       |               |         |                                       |               |       |               |         |       |
| Life Planner     | \$154                                 | \$ 29 | \$ 69         | \$ 20   | \$272                                 | \$180         | \$ 28 | \$ 78         | \$ 22   | \$308 |
| Gibraltar Life:  |                                       |       |               |         |                                       |               |       |               |         |       |
| Life Consultants | \$82                                  | \$ 11 | \$ 27         | \$ 59   | \$179                                 | \$87          | \$ 13 | \$ 30         | \$ 64   | \$194 |
| Banks(2)         | 149                                   | 0     | 8             | 14      | 171                                   | 141           | 0     | 17            | 28      | 186   |



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|                    |       |       |        |       |       |       |       |        |        |       |
|--------------------|-------|-------|--------|-------|-------|-------|-------|--------|--------|-------|
| Independent Agency | 26    | 3     | 14     | 6     | 49    | 36    | 6     | 21     | 7      | 70    |
| Subtotal           | 257   | 14    | 49     | 79    | 399   | 264   | 19    | 68     | 99     | 450   |
| Total              | \$411 | \$ 43 | \$ 118 | \$ 99 | \$671 | \$444 | \$ 47 | \$ 146 | \$ 121 | \$758 |

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

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 5% and 70%, respectively, of total Japanese bank distribution channel annualized new business

(2) premiums, excluding annuity products, for the three months ended September 30, 2017, and 12% and 57%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended September 30, 2016.

Three Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased \$36 million primarily reflecting lower current quarter sales of yen-denominated life and retirement products.

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The decrease in the current quarter primarily resulted from accelerated sales in our Japan operations in the first half of the year in advance of premium rate increases on yen-based products in April of 2017. The decrease was partially offset by higher sales of U.S. dollar-denominated whole life 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 \$51 million. Life Consultant sales decreased \$15 million, primarily reflecting lower current quarter sales of yen-denominated whole life and term life products after the April 2017 repricing discussed above, partially offset by higher sales of U.S. dollar-denominated whole life products resulting from the introduction of a new recurring pay life product in the second quarter of 2017. Bank channel sales decreased \$15 million primarily from lower sales of U.S. dollar-denominated retirement and annuity products due to increased competition, and lower sales of yen-denominated whole life products. This decrease was partially offset by higher sales of U.S. dollar-denominated whole life products. Independent Agency sales decreased \$21 million, primarily reflecting lower current quarter sales of yen-denominated whole life and term life products after the April 2017 repricing discussed above and lower sales of U.S. dollar-denominated retirement products. The decrease was partially offset by higher sales of U.S. dollar-denominated whole life products.

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

|                    | Nine Months Ended September 30, 2017 |                   |               |         |         | Nine Months Ended September 30, 2016 |                   |               |         |         |
|--------------------|--------------------------------------|-------------------|---------------|---------|---------|--------------------------------------|-------------------|---------------|---------|---------|
|                    | Life                                 | Accident & Health | Retirement(1) | Annuity | Total   | Life                                 | Accident & Health | Retirement(1) | Annuity | Total   |
|                    | (in millions)                        |                   |               |         |         |                                      |                   |               |         |         |
| Life Planner       | \$649                                | \$ 94             | \$ 280        | \$ 64   | \$1,087 | \$550                                | \$ 85             | \$ 247        | \$ 57   | \$939   |
| Gibraltar Life:    |                                      |                   |               |         |         |                                      |                   |               |         |         |
| Life Consultants   | \$285                                | \$ 39             | \$ 86         | \$ 168  | \$578   | \$265                                | \$ 39             | \$ 85         | \$ 174  | \$563   |
| Banks(2)           | 390                                  | 0                 | 25            | 51      | 466     | 392                                  | 0                 | 57            | 110     | 559     |
| Independent Agency | 113                                  | 17                | 52            | 18      | 200     | 95                                   | 19                | 51            | 30      | 195     |
| Subtotal           | 788                                  | 56                | 163           | 237     | 1,244   | 752                                  | 58                | 193           | 314     | 1,317   |
| Total              | \$1,437                              | \$ 150            | \$ 443        | \$ 301  | \$2,331 | \$1,302                              | \$ 143            | \$ 440        | \$ 371  | \$2,256 |

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

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 5% and 62%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the nine months ended September 30, 2017, and 8% and 53%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the nine months ended September 30, 2016.

Nine Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased \$148 million. The increase primarily reflected an increase in sales of yen-denominated term life and retirement products and U.S. dollar-denominated whole life and retirement products. The increase also reflected higher sales in our Korea and Brazil operations across various product lines.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations decreased \$73 million. Life Consultant sales increased \$15 million, primarily from higher sales of U.S. dollar-denominated

whole life products resulting from the introduction of a new recurring pay life product in the second quarter of 2017. This increase was partially offset by lower sales of yen-denominated whole life and term life products. Bank channel sales decreased \$93 million primarily from lower sales of U.S. dollar-denominated retirement and annuity products due to increased competition, lower sales of yen-denominated whole life products following the April 2017 repricing, and the suspension of sales of yen-denominated annuity products in response to the low interest rate environment. This decrease was partially offset by higher sales of U.S. dollar-denominated whole life products. Independent Agency sales increased \$5 million, primarily from higher sales of U.S. dollar-denominated whole life products, partially offset by lower sales of Australian dollar-denominated 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>September 30,<br>2017 |         | Nine Months<br>Ended<br>September 30,<br>2016 |           |
|--|--|---------|---|-----------|
|  | 2017   | 2016    | 2017  | 2016      |
|  | (in millions)                                  |         |   |           |
| Operating results:   |  |         |   |           |
| Capital debt interest expense  | \$(178)  | \$(172) | \$(522 )                                      | \$(515 )  |
| Operating debt interest expense, net of investment income  | 25   | 0       | 68  | (24 )     |
| Pension and employee benefits  | 43   | 22      | 116   | 70        |
| Other corporate activities(1)  | (200 )   | (263 )  | (636 )  | (671 )    |
| Adjusted operating income  | (310 )   | (413 )  | (974 )  | (1,140 )  |
| Realized investment gains (losses), net, and related adjustments                                     | (100 )   | (208 )  | (375 )  | (2,966 )  |
| Related charges  | 6  | (18 )   | (21 )   | 12        |
| Divested businesses  | 10   | 56      | 51  | 76        |
| Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests | (7 )   | (2 )    | (16 )   | (2 )      |
| Income (loss) before income taxes and equity in earnings of operating joint ventures                 | \$(401)  | \$(585) | \$(1,335)                                     | \$(4,020) |

(1) Includes consolidating adjustments.

Three Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased \$103 million. Net charges from other corporate activities decreased \$63 million, primarily reflecting lower costs for employee compensation plans tied to Company stock returns as well as decreases in other corporate expenses, partially offset by increased expenses related to corporate initiatives. Results for operating debt interest expense, net of investment income, improved \$25 million, including higher net investment income primarily from income on non-coupon investments and highly liquid assets. Results from pension and employee benefits increased \$21 million, primarily reflecting higher income from our qualified pension plan, including higher expected earnings on plan assets driven by a decline in interest rates in 2016, and lower interest costs on plan obligations. Capital debt interest expense increased \$6 million.

Nine Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased \$166 million. Results for operating debt interest expense, net of investment income, improved \$92 million, primarily reflecting higher investment income, driven by the absence of a non-coupon investment loss incurred in the prior year period and higher income on highly liquid assets, and lower operating debt interest expense including efforts in 2016 to reduce leverage through senior debt maturities and early extinguishment of debt. Net charges from other corporate activities decreased \$35 million, primarily reflecting the absence of costs associated with the early extinguishment of certain debt incurred in the prior year period, and decreases in other corporate expenses. The decreased charges were partially offset by certain long-term compensation program changes in the first quarter of 2017, discussed below, higher costs for employee compensation plans tied to equity market and Company stock returns, and increased expenses related to corporate initiatives. Results from pension and employee benefits increased \$46 million, primarily reflecting higher income from our qualified pension plan, including higher expected earnings on plan assets driven by a decline in interest rates in 2016, and lower interest costs on plan obligations. Capital debt interest expense increased \$7 million.

Long-term compensation program modifications

Effective January 1, 2017, certain of our long-term compensation plans were modified to remove the proration requirements for future award grants made to retirement eligible associates who retire prior to completing a full year of service. This modification requires us to recognize certain expenses related to the impacted plans during the quarter in which the awards are granted (typically the first quarter of each year), whereas previously these expenses were generally recognized ratably over the course of the full year of the grant. This change in timing of expense recognition resulted in approximately \$82 million of expenses in the first quarter of 2017 that would have been recognized over the following three quarters under the prior requisite service period

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requirements. Of this \$82 million, \$27 million was recorded within Corporate and Other, and the remaining \$55 million was recognized within the other business segments.

As a result of the plan modifications, results for the nine months ended September 30, 2017 include \$37 million of expenses that would have been recorded in the following three months under the prior requisite service period requirements. Of this \$37 million, \$13 million would have been recorded in Corporate and Other, and the remaining \$24 million would have been recorded within the other business segments in the following three months under the prior requisite service period requirements.

## Capital Protection Framework

“Realized investment gains (losses), net and related adjustments,” which are excluded from adjusted operating income, included net losses of \$103 million and \$143 million for the three and nine months ended September 30, 2017, respectively, and net losses of \$103 million and \$2,128 million for the three and nine months ended September 30, 2016, respectively, related to our Capital Protection Framework. The comparative variance between the first nine months of 2017 and the prior year period is primarily attributed to changes in our Individual Annuities risk management strategy implemented in 2016, whereby we terminated the existing intercompany derivative transactions between Corporate and Other operations and Individual Annuities related to managing interest rate risk and we now manage this risk within the Individual Annuities business segment. For more information on our Capital Protection Framework, see “—Liquidity and Capital Resources—Capital Protection Framework.”

## Divested Businesses

## Divested Businesses Included in Corporate and Other

Our income 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<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 |
|---|--|---|--|---|
|   | (in millions)  |   |  |   |
| Long-Term Care  | \$10   | \$58  | \$53   | \$85  |
| Other   | 0  | (2)   | (2)  | (9)   |
| Total divested businesses income (loss) excluded from adjusted operating income | \$10   | \$56  | \$51   | \$76  |

Long-Term Care. Results for the third quarter of 2017 decreased compared to the prior year period, primarily reflecting less favorable policy experience and lower net investment income. Results for the first nine months of 2017 decreased compared to the prior year period, primarily reflecting lower net realized investment gains, driven by the change in the market values of derivatives used in duration management, and less favorable policy experience. This decrease was partially offset by higher net investment income and a favorable comparative impact from our annual reviews and update of assumptions and other refinements.

## 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 6 to the Unaudited Interim Consolidated Financial Statements for additional details.

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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 September 30, 2017, the excess of actual cumulative earnings over the expected cumulative earnings was \$1,710 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 \$3,518 million at September 30, 2017, 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>September 30,<br>2017 |         | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|--|--|---------|---|---------|
|  | 2017   | 2016    | 2017  | 2016    |
|  | (in millions)                                  |         |   |         |
| U.S. GAAP results:   |  |         |   |         |
| Revenues   | \$1,376  | \$1,481 | \$4,382                                       | \$4,156 |
| Benefits and expenses  | 1,343  | 1,450   | 4,333   | 4,230   |
| Income (loss) before income taxes and equity in earnings of operating joint ventures | \$33   | \$31    | \$49  | \$(74)  |

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

Three Month Comparison. Income before income taxes and equity in earnings of operating joint ventures increased \$2 million. Results for the third quarter of 2017 reflected a \$46 million decrease in net realized investment gains, primarily due to unfavorable changes in the value of derivatives used in risk management activities, partially offset by higher gains from sales of fixed maturities. Net investment income decreased \$36 million, primarily driven by lower income on non-coupon investments and lower reinvestment rates, partially offset by higher prepayment income. Net insurance activity results increased \$10 million, primarily due to lower benefit payments. As a result of the above and other variances, a \$13 million reduction in the policyholder dividend obligation was recorded in the third quarter of 2017, compared to a \$54 million increase in the third quarter of 2016. 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 cumulative earnings policyholder dividend obligation. For a discussion of Closed Block division realized investment gains (losses), net, see "—Realized Investment Gains and Losses."



Nine Month Comparison. Income before income taxes and equity in earnings of operating joint ventures increased \$123 million. Results for the first nine months of 2017 reflected a \$257 million increase in net realized investment gains and related activity, primarily due to higher gains from sales of equity securities and fixed maturities, partially offset by unfavorable changes in the value of derivatives used in risk management activities. Net investment income increased \$30 million, primarily driven by higher income on non-coupon investments and higher prepayment income, partially offset by lower reinvestment rates. As a result of the above and other variances, a \$64 million increase in the policyholder dividend obligation was recorded in the first nine months of 2017, compared to a \$123 million reduction in the first nine months of 2016.

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Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” decreased \$105 million, primarily due to decreases of \$46 million in net realized investment gains and \$36 million in net investment income, as discussed above, as well as a \$20 million decrease in premiums due to a runoff of policies in force.

Benefits and expenses, as shown in the table above under “—Operating Results,” decreased \$107 million, primarily due to a \$71 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 \$29 million, primarily due to the runoff of policies in force, as discussed above.

Nine Month Comparison. Revenues increased \$226 million, primarily due to increases of \$202 million in net realized investment gains, \$55 million in other revenue and \$30 million in net investment income, as discussed above. Partially offsetting these increases was a decrease in premiums of \$61 million, primarily due to run off of policies in force.

Benefits and expenses increased \$103 million, primarily due to a \$172 million increase in dividends to policyholders, reflecting an increase in the policyholder dividend obligation expense due to changes in cumulative earnings. Partially offsetting this increase was a decrease in policyholders’ benefits, including changes in reserves, of \$51 million, primarily due to the runoff of policies in force, as discussed above.

Income Taxes

For information regarding income taxes, see Note 12 to the Unaudited Interim Consolidated Financial Statements.

Experience-Rated Contractholder Liabilities,  
Trading Account Assets Supporting Insurance 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. For more information on these experience-rated products, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments” and Note 22 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016.

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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         |           | Nine Months |           |
|---|---------------|-----------|-------------|-----------|
|   | Months        | Months    | Months      | Months    |
|   | Ended         | Ended     | Ended       | Ended     |
|   | September     | September | September   | September |
|   | 30,           | 30,       | 30,         | 30,       |
|   | 2017          | 2016      | 2017        | 2016      |
|   | (in millions) |           |             |           |
| Retirement Segment:   |               |           |             |           |
| Investment gains (losses) on:   |               |           |             |           |
| Trading account assets supporting insurance liabilities, net                              | \$29          | \$14      | \$219       | \$516     |
| Derivatives   | (51 )         | (22 )     | (136 )      | (130 )    |
| Commercial mortgages and other loans  | (5 )          | (6 )      | (6 )        | (10 )     |
| Change in experience-rated contractholder liabilities due to asset value changes(1)(2)    | 25            | 24        | (77 )       | (417 )    |
| Net gains (losses)  | \$(2 )        | \$10      | \$0         | \$(41 )   |
| International Insurance Segment:  |               |           |             |           |
| Investment gains (losses) on trading account assets supporting insurance liabilities, net |               |           |             |           |
| Change in experience-rated contractholder liabilities due to asset value changes          | \$56          | \$23      | \$111       | \$(155)   |
| Net gains (losses)  | (56 )         | (23 )     | (111 )      | 155       |
| Net gains (losses)  | \$0           | \$0       | \$0         | \$0       |
| Total:  |               |           |             |           |
| Investment gains (losses) on:   |               |           |             |           |
| Trading account assets supporting insurance liabilities, net                              | \$85          | \$37      | \$330       | \$361     |
| Derivatives   | (51 )         | (22 )     | (136 )      | (130 )    |
| Commercial mortgages and other loans  | (5 )          | (6 )      | (6 )        | (10 )     |
| Change in experience-rated contractholder liabilities due to asset value changes(1)(2)    | (31 )         | 1         | (188 )      | (262 )    |
| Net gains (losses)  | \$(2 )        | \$10      | \$0         | \$(41 )   |

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 \$9 million and less than \$1 million as of September 30, 2017 (1) and 2016, 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.

Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are decreases of \$8 million and \$5 million for the three months ended September 30, 2017 and 2016, respectively, and decreases of \$3 million and increases of \$51 million for the nine months ended (2) September 30, 2017 and 2016, 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 trading account assets supporting insurance 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.

## 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 13 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 6 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

|  | As of September 30, 2017            |                  |                       |                  | As of December 31, 2016             |                  |                       |                  |
|--|-------------------------------------|------------------|-----------------------|------------------|-------------------------------------|------------------|-----------------------|------------------|
|  | PFI excluding Closed Block Division |                  | Closed Block Division |                  | PFI excluding Closed Block Division |                  | Closed Block Division |                  |
|  | Total at Fair Value                 | Total Level 3(1) | Total at Fair Value   | Total Level 3(1) | Total at Fair Value                 | Total Level 3(1) | Total at Fair Value   | Total Level 3(1) |
|  | (in millions)                       |                  |                       |                  |                                     |                  |                       |                  |
| Fixed maturities, available-for-sale                             | \$298,701                           | \$ 7,210         | \$41,399              | \$ 1,847         | \$282,515                           | \$ 5,501         | \$38,904              | \$ 1,356         |
| Trading account assets:  |                                     |                  |                       |                  |                                     |                  |                       |                  |
| Fixed maturities   | 23,096                              | 1,285            | 198                   | 1                | 23,143                              | 747              | 160                   | 0                |
| Equity securities  | 2,525                               | 446              | 136                   | 97               | 2,267                               | 429              | 124                   | 58               |
| All other(2)   | 2,076                               | 6                | 0                     | 0                | 1,760                               | 1                | 0                     | 0                |
| Subtotal   | 27,697                              | 1,737            | 334                   | 98               | 27,170                              | 1,177            | 284                   | 58               |
| Equity securities, available-for-sale                            | 7,348                               | 267              | 2,391                 | 14               | 7,176                               | 253              | 2,572                 | 12               |
| Commercial mortgage and other loans                              | 340                                 | 0                | 0                     | 0                | 519                                 | 0                | 0                     | 0                |
| Other long-term investments                                      | 217                                 | 95               | 0                     | 0                | 146                                 | 7                | 3                     | 0                |
| Short-term investments   | 4,470                               | 5                | 205                   | 0                | 6,383                               | 1                | 799                   | 0                |
| Cash equivalents   | 7,432                               | 53               | 637                   | 40               | 7,108                               | 0                | 1,198                 | 0                |
| Other assets   | 0                                   | 0                | 0                     | 0                | 0                                   | 0                | 0                     | 0                |
| Separate account assets  | 275,228                             | 2,283            | 0                     | 0                | 262,017                             | 1,849            | 0                     | 0                |
| Total assets   | \$621,433                           | \$ 11,650        | \$44,966              | \$ 1,999         | \$593,034                           | \$ 8,788         | \$43,760              | \$ 1,426         |
| Future policy benefits   | \$8,537                             | \$ 8,537         | \$0                   | \$ 0             | \$8,238                             | \$ 8,238         | \$0                   | \$ 0             |
| Other liabilities(2)   | 762                                 | 39               | 0                     | 0                | 368                                 | 22               | 1                     | 0                |
| Notes issued by consolidated variable interest entities ("VIEs") | 1,194                               | 1,194            | 0                     | 0                | 1,839                               | 1,839            | 0                     | 0                |
| Total liabilities  | \$10,493                            | \$ 9,770         | \$0                   | \$ 0             | \$10,445                            | \$ 10,099        | \$1                   | \$ 0             |

(1) Level 3 assets expressed as a percentage of total assets measured at fair value on a recurring basis for PFI excluding the Closed Block division and for the Closed Block division totaled 1.9% and 4.4%, respectively, as of September 30, 2017, and 1.5% and 3.3%, respectively, as of December 31, 2016.

(2) "All other" and "Other liabilities" primarily include derivatives. The amounts classified as Level 3 exclude the impact of netting.

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 September 30, 2017, with values primarily based on indicative broker quotes, and approximately \$1.7 billion of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific credit 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 and equity securities 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.

### 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 13 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 \$8.5 billion as of September 30, 2017. For additional information, see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities."

### Notes Issued by Consolidated VIEs

As discussed in Note 5 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 13 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;
- 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;



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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 OTTI policies for fixed maturity and equity securities, see Note 2 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016.

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. Retirement Solutions and Investment Management 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 11 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 Months<br>Ended<br>September 30,<br>2017 |       | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|--|--|-------|---|---------|
|  | 2017   | 2016  | 2017  | 2016    |
|  | (in millions)                                  |       |   |         |
| Realized investment gains (losses), net:                                     |  |       |   |         |
| PFI excluding Closed Block division  | \$1,501  | \$660 | \$481   | \$3,867 |
| Closed Block division  | 107  | 153   | 462   | 260     |
| Consolidated realized investment gains (losses), net                         | \$1,608  | \$813 | \$943   | \$4,127 |
| PFI excluding Closed Block Division:   |  |       |   |         |
| Realized investment gains (losses), net:                                     |  |       |   |         |
| Fixed maturity securities  | \$148  | \$308 | \$462   | \$661   |
| Equity securities  | 235  | 44    | 309   | 19      |
| Commercial mortgage and other loans  | 22   | 6     | 48  | 35      |
| Derivative instruments   | 1,097  | 304   | (338)   | 3,210   |
| Other  | (1)  | (2)   | 0   | (58)    |
| Total  | \$1,501  | \$660 | \$481   | \$3,867 |
| Related adjustments  | (106)  | (437) | (529)   | (1,424) |
| Realized investment gains (losses), net, and related adjustments             | 1,395  | 223   | (48)  | 2,443   |
| Related charges  | (231)  | 426   | 571   | (1,096) |
| Realized investment gains (losses), net, and related charges and adjustments | \$1,164  | \$649 | \$523   | \$1,347 |
| Closed Block Division:   |  |       |   |         |
| Realized investment gains (losses), net:                                     |  |       |   |         |
| Fixed maturity securities  | \$80   | \$57  | \$169   | \$64    |
| Equity securities  | 81   | 80    | 427   | 204     |
| Commercial mortgage and other loans  | (1)  | (1)   | 1   | 1       |
| Derivative instruments   | (53)   | 19    | (125)   | 8       |
| Other  | 0  | (2)   | (10)  | (17)    |
| Total  | \$107  | \$153 | \$462   | \$260   |

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

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

|   | Three<br>Months<br>Ended<br>September<br>30,<br>2017 |       | Nine Months<br>Ended<br>September 30,<br>2016 |         |
|---|--|-------|---|---------|
|   | 2017   | 2016  | 2017  | 2016    |
|   | (in millions)  |       |   |         |
| Gross realized investment gains:  |  |       |   |         |
| Gross gains on sales and maturities                                     | \$263  | \$356 | 914   | \$1,051 |
| Gross realized investment losses:                                       |  |       |   |         |
| Net OTTI recognized in earnings(1)                                      | (18)   | (16)  | (83)  | (101)   |
| Gross losses on sales and maturities                                    | (97)   | (32)  | (361)   | (278)   |
| Credit-related losses on sales  | 0  | 0     | (8)   | (11)    |
| Total gross realized investment losses                                  | (115)  | (48)  | (452)   | (390)   |
| Realized investment gains (losses), net—Fixed Maturity Securities       | \$148  | \$308 | 462   | \$661   |
| Net gains (losses) on sales and maturities—Fixed Maturity Securities(2) | \$166  | \$324 | \$553   | \$773   |

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- Excludes the portion of OTTI recorded in “Other comprehensive income (loss),” representing any difference between
- (1) 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.

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## 2017 to 2016 Three Month Comparison

Net gains on sales and maturities of fixed maturity securities were \$166 million and \$324 million in the third quarter of 2017 and 2016, respectively, primarily driven by sales and maturities of U.S. 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 \$235 million in the third quarter of 2017, primarily driven by net gains on sales of \$247 million within our International Insurance segment, offset by OTTI of \$12 million. Net realized gains on equity securities were \$44 million in the third quarter of 2016, primarily driven by net gains on sales of \$64 million, offset by OTTI of \$20 million. See below for additional information regarding OTTI of equity securities.

Net realized gains on commercial mortgage and other loans in the third quarter of 2017 were \$22 million. This included gains associated with servicing revenue of approximately \$19 million in our Asset Management business. Net realized gains on commercial mortgage and other loans in the third quarter of 2016 were \$6 million. This included gains associated with servicing revenue of \$14 million in our Asset Management business, partially offset by an increase in the allowance for losses of \$6 million. 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 \$1,097 million and \$304 million in the third quarter of 2017 and 2016, respectively. The net derivative gains in the third quarter of 2017 primarily reflected \$1,294 million of gains on product related embedded derivatives and related hedges mainly associated with certain variable annuity contracts; and \$37 million of gains 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 \$158 million on foreign currency derivatives used to hedge foreign-denominated investments as the U.S. dollar weakened against various currencies; and losses of \$93 million on equity futures and options as the equity index increased. The net derivative gains in the third quarter of 2016 primarily reflected \$319 million of gains on derivatives in Japan operations as the Japanese yen strengthened against various currencies; \$45 million of gains of interest rate derivatives used to manage duration as longer-term swap rates decreased; and \$40 million of gains primarily representing the fees earned on GICs. Partially offsetting these gains were \$96 million of losses on Japan net long duration derivatives as Japan swap rates increased.

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 third quarter of 2017 included net negative related adjustments of \$106 million, compared to \$437 million for the third quarter of 2016. Results for the third quarter of 2017 were primarily driven by settlements and changes in value related to interest rate and currency derivatives, while the results for the third quarter of 2016 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.”

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 third quarter of 2017 included a net related charge of \$231 million, compared to a net related benefit of \$426 million for the third quarter of 2016. Current period results were driven by the impact of derivative activity on the amortization of DAC and other costs and certain policyholder reserves while prior period results were driven by a benefit of \$515 million related to the ALM strategy that was

implemented in the Individual Annuities segment in the third quarter of 2016.

#### 2017 to 2016 Nine Month Comparison

Net gains on sales and maturities of fixed maturity securities were \$553 million and \$773 million in the first nine months of 2017 and 2016, respectively, primarily driven by sales and maturities of U.S. 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 \$309 million in the first nine months of 2017, primarily driven by net gains on sales of \$329 million, offset by OTTI of \$20 million. Net realized gains on equity securities were \$19 million in the first nine months of 2016, primarily driven by net gains on sales of \$74 million, offset by OTTI of \$55 million. See below for additional information regarding OTTI of equity securities.

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Net realized gains on commercial mortgage and other loans in the first nine months of 2017 were \$48 million, primarily driven by servicing revenue of approximately \$45 million in our Asset Management business, partially offset by an increase in the allowance for losses of \$3 million. Net realized gains on commercial mortgage and other loans in the first nine months of 2016 were \$35 million, primarily driven by servicing revenue of \$36 million in our Asset 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 losses on derivatives were \$338 million in the first nine months of 2017, compared to net realized gains of \$3,210 million in the first nine months of 2016. The net derivative losses in the first nine months of 2017 reflected \$443 million of losses on product related embedded derivatives and related hedges mainly associated with certain variable annuity contracts; \$352 million of losses on foreign currency derivatives used to hedge foreign-denominated investments as the U.S. dollar weakened against various currencies; and losses of \$93 million on equity futures and options as the equity index increased. Partially offsetting these losses were net gains of \$294 million on interest rate derivatives used to manage duration as swap rates and U.S. Treasury rates declined; net gains of \$117 million on currency derivatives primarily in Japan operations used to hedge non-yen denominated investments as the Japanese yen strengthened against various currencies; and net gains of \$116 million primarily representing the fees earned on fee-based GICs which are accounted for as derivatives. The net derivative gains in the first nine months of 2016 primarily reflected \$1,351 million of gains on interest rate derivatives used to manage duration as swap rates decreased; \$1,348 million of gains on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts; and \$116 million of gains primarily representing the fees earned on GICs.

Results for the first nine months of 2017 and 2016 included net negative related adjustments of \$529 million and \$1,424 million, respectively. Results for both periods were driven by the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities, for which the majority of the foreign currency exposure is hedged and offset in “Realized investment gains (losses), net” as well as settlements on interest rate and currency derivatives.

Results for the first nine months of 2017 included a net related benefit of \$571 million, compared to a net related charge of \$1,096 million for the first nine months of 2016. Results for both periods were driven by the impact of derivative activity on the amortization of DAC and other costs and certain policyholder reserves including, for the first nine months of 2016, a benefit of \$515 million related to the ALM strategy that was implemented in the Individual Annuities segment during the third quarter of 2016.

## 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>September<br>30,<br>2017 |      | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 |      |
|-----------------------------------|--|------|---|------|
|                                   | 2016   | 2017 | 2016  | 2016 |
|                                   | (in millions)  |      |   |      |
| Public fixed maturity securities  | \$3  | \$13 | \$18  | \$51 |
| Private fixed maturity securities | 15   | 3    | 65  | 50   |
| Total fixed maturity securities   | 18   | 16   | 83  | 101  |

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|                          |      |       |       |       |
|--------------------------|------|-------|-------|-------|
| Equity securities        | 12   | 20    | 20    | 55    |
| Other invested assets(1) | 4    | 11    | 12    | 51    |
| Total(2)                 | \$34 | \$ 47 | \$115 | \$207 |

(1) Includes OTTI related to investments in joint ventures and limited partnerships.

Excludes amounts remaining in OCI from previously impaired investments, representing any difference between  
(2) the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

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|   | Three<br>Months<br>Ended<br>September<br>30,<br>2017 | Three<br>Months<br>Ended<br>September<br>30,<br>2016 | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 |
|---|--|--|---|---|
|   | (in millions)  |  |   |   |
| Due to foreign exchange rate movements on securities approaching maturity | \$10   | \$1  | \$34  | \$2   |
| Due to securities actively marketed for sale                              | 5  | 1  | 11  | 26  |
| Due to credit events or adverse conditions of the respective issuer(1)    | 3  | 14   | 38  | 73  |
| Total fixed maturity securities(2)  | \$18   | \$16   | \$83  | \$101   |

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.

Excludes amounts remaining in OCI from previously impaired investments, representing any difference between (2) the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

## 2017 to 2016 Three Month Comparison

Fixed maturity security OTTI in the third quarter of 2017 were concentrated in the capital goods, industrial and energy 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. Fixed maturity security OTTI in the third quarter of 2016 were concentrated in the capital goods and foreign agency sectors within corporate securities and were primarily related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

Equity security OTTI in both the third quarter of 2017 and 2016 were primarily driven by the extent and duration of declines in values.

Other invested assets OTTI in both the third quarter of 2017 and 2016 were primarily driven by the extent and duration of declines in values of investments in private equity limited partnerships.

## 2017 to 2016 Nine Month Comparison

Fixed maturity security OTTI in the first nine months of 2017 were concentrated in the energy, capital goods and finance sectors within corporate securities. These OTTI were related to credit events or other adverse conditions of the respective issuers as well as securities approaching maturity with losses from foreign currency exchange rate movements which were primarily hedged with derivatives that had an offsetting realized gain. Fixed maturity security OTTI in the first nine months of 2016 were concentrated in the energy, capital goods and foreign agency sectors within corporate securities and were primarily related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

Equity security OTTI in both the first nine months of 2017 and 2016 were primarily driven by the extent and duration of declines in values.

Other invested assets OTTI in both the first nine months of 2017 and 2016 were primarily driven by the extent and duration of declines in values of investments in private equity limited partnerships.



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

Net realized gains on fixed maturity securities of \$80 million for the third quarter of 2017 were primarily due to net gains of \$84 million on sales and maturities, offset by OTTI of \$4 million. Net realized gains on fixed maturity securities of \$57 million for the third quarter of 2016 were primarily due to net gains on sales and maturities of \$70 million, partially offset by OTTI of \$13 million. Net realized gains on fixed maturity securities of \$169 million for the first nine months of 2017 were primarily due to net gains of \$208 million on sales and maturities, offset by OTTI of \$39 million. Net realized gains on fixed maturity securities of \$64 million for the first nine months of 2016 were primarily due to net gains on sales and maturities of \$137 million, partially offset by OTTI of \$65 million.

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Net realized gains on equity securities were \$81 million in the third quarter of 2017, primarily driven by net gains on sales. Net realized gains on equity securities were \$80 million in the third quarter of 2016, primarily driven by net gains on sales of \$83 million, offset by OTTI of \$3 million. Net realized gains on equity securities were \$427 million in the first nine months of 2017, primarily driven by net gains on sales of \$430 million, offset by OTTI of \$3 million. Net realized gains on equity securities were \$204 million in the first nine months of 2016, primarily driven by net gains on sales of \$214 million, offset by OTTI of \$10 million.

Net realized losses on derivatives were \$53 million in the third quarter of 2017, compared to net realized gains of \$19 million in the third quarter of 2016. Derivative losses in the third quarter of 2017 primarily reflect \$50 million of losses on currency derivatives used to hedge foreign-denominated investments as the U.S. dollar weakened against various currencies. Derivative gains in the third quarter of 2016 primarily reflect \$18 million of gains on interest rate derivatives used to manage duration as longer-term swap rates decreased. Net realized losses on derivatives were \$125 million in the first nine months of 2017, compared to net realized gains of \$8 million in the first nine months of 2017 and 2016, respectively. Derivative losses in the first nine months of 2017 primarily reflect \$124 million of losses on currency derivatives used to hedge foreign-denominated investments as the U.S. dollar weakened against various currencies. Derivative gains in the first nine months of 2016 primarily reflect \$17 million of gains on currency derivatives used to hedge foreign-denominated investments as the U.S. dollar strengthened against various currencies; and \$15 million of gains on interest rate derivatives used to manage duration as swap rates decreased. Partially offsetting these gains is \$28 million of losses on the net-short 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 long-term investments such as joint ventures and limited partnerships, real estate held through direct ownership 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 Asset 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:

|  | September 30, 2017                        |        |                          |           |
|--|---|--------|--------------------------|-----------|
|  | PFI Excluding<br>Closed Block<br>Division |        | Closed Block<br>Division | Total     |
|  | (\$ in millions)                          |        |                          |           |
| Fixed maturities:  |   |        |                          |           |
| Public, available-for-sale, at fair value                              | \$254,689                                 | 64.2 % | \$ 27,334                | \$282,023 |
| Public, held-to-maturity, at amortized cost                            | 1,767                                     | 0.4    | 0                        | 1,767     |
| Private, available-for-sale, at fair value                             | 43,582                                    | 11.0   | 14,065                   | 57,647    |
| Private, held-to-maturity, at amortized cost                           | 317                                       | 0.1    | 0                        | 317       |
| Trading account assets supporting insurance liabilities, at fair value | 22,126                                    | 5.6    | 0                        | 22,126    |
| Other trading account assets, at fair value                            | 1,913                                     | 0.5    | 334                      | 2,247     |

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|  |           |        |           |           |
|--|-----------|--------|-----------|-----------|
| Equity securities, available-for-sale, at fair value | 7,334     | 1.8    | 2,391     | 9,725     |
| Commercial mortgage and other loans, at book value   | 45,661    | 11.5   | 9,332     | 54,993    |
| Policy loans, at outstanding balance                 | 7,195     | 1.8    | 4,570     | 11,765    |
| Other long-term investments(1)                       | 7,310     | 1.8    | 3,167     | 10,477    |
| Short-term investments                               | 5,088     | 1.3    | 398       | 5,486     |
| Total general account investments                    | 396,982   | 100.0% | 61,591    | 458,573   |
| Invested assets of other entities and operations(2)  | 6,318     |        | 0         | 6,318     |
| Total investments                                    | \$403,300 |        | \$ 61,591 | \$464,891 |

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|  | December 31, 2016   |        |                          |           |
|--|---|--------|--------------------------|-----------|
|  | PFI Excluding<br>Closed Block<br>Division<br>(\$ in millions) |        | Closed Block<br>Division | Total     |
| Fixed maturities:  |   |        |                          |           |
| Public, available-for-sale, at fair value                              | \$243,201   | 64.2 % | \$ 24,917                | \$268,118 |
| Public, held-to-maturity, at amortized cost                            | 1,772   | 0.5    | 0                        | 1,772     |
| Private, available-for-sale, at fair value                             | 39,074  | 10.3   | 13,987                   | 53,061    |
| Private, held-to-maturity, at amortized cost                           | 372   | 0.1    | 0                        | 372       |
| Trading account assets supporting insurance liabilities, at fair value | 21,840  | 5.8    | 0                        | 21,840    |
| Other trading account assets, at fair value                            | 1,521   | 0.4    | 284                      | 1,805     |
| Equity securities, available-for-sale, at fair value                   | 7,163   | 1.9    | 2,572                    | 9,735     |
| Commercial mortgage and other loans, at book value                     | 42,771  | 11.2   | 9,437                    | 52,208    |
| Policy loans, at outstanding balance                                   | 7,095   | 1.9    | 4,660                    | 11,755    |
| Other long-term investments(1)   | 7,231   | 1.9    | 3,020                    | 10,251    |
| Short-term investments   | 6,657   | 1.8    | 837                      | 7,494     |
| Total general account investments                                      | 378,697   | 100.0% | 59,714                   | 438,411   |
| Invested assets of other entities and operations(2)                    | 5,829   |        | 0                        | 5,829     |
| Total investments  | \$384,526   |        | \$ 59,714                | \$444,240 |

Other long-term investments consist of investments in joint ventures and limited partnerships, investment real estate held through direct ownership, certain derivatives and other miscellaneous investments. For additional information regarding these investments, see “—Other Long-Term Investments” below.

(1) Includes invested assets of our asset management and derivative operations. Excludes assets of our asset 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.

The increase in general account investments attributable to PFI excluding the Closed Block division in the first nine months of 2017 was primarily due to the reinvestment of net investment income, net business inflows and the translation impact of the yen strengthening against the U.S. dollar. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

As of September 30, 2017 and December 31, 2016, 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:

|  | September<br>30, 2017 | December<br>31, 2016 |
|--|-----------------------|----------------------|
|  | (in millions)         |                      |
| Fixed maturities:  |                       |                      |
| Public, available-for-sale, at fair value                              | \$128,944             | \$123,285            |
| Public, held-to-maturity, at amortized cost                            | 1,767                 | 1,772                |
| Private, available-for-sale, at fair value                             | 14,400                | 11,646               |
| Private, held-to-maturity, at amortized cost                           | 317                   | 372                  |
| Trading account assets supporting insurance liabilities, at fair value | 2,469                 | 2,166                |
| Other trading account assets, at fair value                            | 460                   | 434                  |

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|  |            |            |
|--|------------|------------|
| Equity securities, available-for-sale, at fair value | 2,324      | 2,654      |
| Commercial mortgage and other loans, at book value   | 13,613     | 11,700     |
| Policy loans, at outstanding balance                 | 2,509      | 2,369      |
| Other long-term investments(1)                       | 2,101      | 1,186      |
| Short-term investments                               | 144        | 398        |
| Total Japanese general account investments           | \$ 169,048 | \$ 157,982 |

(1) Other long-term investments consist of investments in joint ventures and limited partnerships, investment real estate held through direct ownership, derivatives and other miscellaneous investments.

The increase in general account investments related to our Japanese insurance operations in the first nine months of 2017 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 September 30, 2017, our Japanese insurance operations had \$62.0 billion, at carrying value, of investments denominated in U.S. dollars, including \$5.7 billion that were hedged to yen through third-party derivative contracts and \$43.0 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, 2016, our Japanese insurance operations had \$55.7 billion, at carrying value, of investments denominated in U.S. dollars, including \$5.3 billion that were hedged to yen through third-party derivative contracts and \$36.1 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 \$6.3 billion increase in the carrying value of U.S. dollar-denominated investments from December 31, 2016, 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 \$11.8 billion and \$11.0 billion, at carrying value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of September 30, 2017 and December 31, 2016, respectively. The \$0.8 billion increase in the carrying value of Australian dollar-denominated investments from December 31, 2016, was primarily attributable to the translation impact of the Australian dollar strengthening against the U.S. dollar, portfolio growth as a result of net business inflows and the reinvestment of net investment income. 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—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.”

### 2017 to 2016 Three Month Comparison

|   | Three Months Ended September 30, 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(3) |
|   | Yield(1)  | Amount    | Yield(1)                            | Amount  | Yield(1)                                  | Amount    | Amount                      | Amount |          |
|   | (\$ in millions)  |           |                                     |         |   |           |                             |        |          |
| Fixed maturities  | 4.52  | % \$1,608 | 3.01                                | % \$918 | 3.82                                      | % \$2,526 | \$ 446                      |        | \$2,972  |
| Trading account assets supporting insurance liabilities | 3.52  | 172       | 2.22                                | 14      | 3.38                                      | 186       | 0                           |        | 186      |
| Equity securities                                       | 6.29  | 64        | 6.22                                | 23      | 6.27                                      | 87        | 12                          |        | 99       |
| Commercial mortgage and other loans                     | 4.06  | 324       | 3.91                                | 130     | 4.02                                      | 454       | 112                         |        | 566      |
| Policy loans  | 5.29  | 62        | 3.97                                | 24      | 4.83                                      | 86        | 67                          |        | 153      |
| Short-term investments and cash equivalents             | 1.30  | 40        | 1.15                                | 3       | 1.29                                      | 43        | 6                           |        | 49       |
| Other investments                                       | 4.78  | 78        | 4.19                                | 27      | 4.61                                      | 105       | 70                          |        | 175      |
| Gross investment income                                 | 4.27  | 2,348     | 3.14                                | 1,139   | 3.82                                      | 3,487     | 713                         |        | 4,200    |
| Investment expenses                                     | (0.15)  | (83)      | (0.12)                              | (48)    | (0.14)                                    | (131)     | (47)                        |        | (178)    |

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|  |      |   |         |      |   |         |      |   |         |        |         |
|--|------|---|---------|------|---|---------|------|---|---------|--------|---------|
| Investment income after investment expenses            | 4.12 | % | 2,265   | 3.02 | % | 1,091   | 3.68 | % | 3,356   | 666    | 4,022   |
| Investment results of other entities and operations(2) |      |   | 54      |      |   | 0       |      |   | 54      | 0      | 54      |
| Total investment income                                |      |   | \$2,319 |      |   | \$1,091 |      |   | \$3,410 | \$ 666 | \$4,076 |

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|   | Three Months Ended September 30, 2016                                   |           |                                     |         |   |           |                             |        |          |
|---|---|-----------|-------------------------------------|---------|---|-----------|-----------------------------|--------|----------|
|   | 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(3) |
|   | Yield(1)  | Amount    | Yield(1)                            | Amount  | Yield(1)                                  | Amount    | Amount                      | Amount |          |
|   | (\$ in millions)  |           |                                     |         |   |           |                             |        |          |
| Fixed maturities  | 4.57  | % \$1,539 | 3.04                                | % \$898 | 3.86                                      | % \$2,437 | \$ 433                      |        | \$2,870  |
| Trading account assets supporting insurance liabilities | 3.89  | 189       | 2.23                                | 13      | 3.72                                      | 202       | 0                           |        | 202      |
| Equity securities                                       | 6.51  | 60        | 5.19                                | 22      | 6.10                                      | 82        | 13                          |        | 95       |
| Commercial mortgage and other loans                     | 4.18  | 317       | 4.17                                | 115     | 4.18                                      | 432       | 117                         |        | 549      |
| Policy loans  | 5.44  | 63        | 3.99                                | 26      | 4.93                                      | 89        | 70                          |        | 159      |
| Short-term investments and cash equivalents             | 0.64  | 31        | 0.52                                | 2       | 0.63                                      | 33        | 5                           |        | 38       |
| Other investments                                       | 11.33   | 160       | 3.41                                | 25      | 8.65                                      | 185       | 103                         |        | 288      |
| Gross investment income                                 | 4.36  | 2,359     | 3.15                                | 1,101   | 3.89                                      | 3,460     | 741                         |        | 4,201    |
| Investment expenses                                     | (0.13)  | (63)      | (0.12)                              | (43)    | (0.13)                                    | (106)     | (39)                        |        | (145)    |
| Investment income after investment expenses             | 4.23  | % 2,296   | 3.03                                | % 1,058 | 3.76                                      | % 3,354   | 702                         |        | 4,056    |
| Investment results of other entities and operations(2)  |   | 17        |                                     | 0       |   | 17        | 0                           |        | 17       |
| Total investment income                                 |   | \$2,313   |                                     | \$1,058 |   | \$3,371   | \$ 702                      |        | \$4,073  |

- Yields are annualized, for interim periods, and are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost.
- (1) Yields for equity securities are based on cost. 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.
- (2) Includes net investment income of our asset management operations and derivative operations.
- (3) The total yield was 3.84% and 3.95% for the three months ended September 30, 2017 and 2016, 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 September 30, 2017, compared to the three months ended September 30, 2016, 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 September 30, 2017, compared to the three months ended September 30, 2016, was primarily attributable to lower fixed income reinvestment rates mostly offset by higher 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 \$42.6 billion and \$38.6 billion for the three months ended September 30, 2017 and 2016, 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 \$10.6 billion and \$9.7 billion for the three months ended September 30, 2017 and 2016, 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—Impact of Foreign Currency Exchange Rates.”

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2017 to 2016 Nine Month Comparison

|   | Nine Months Ended September 30, 2017 |           |               |          |          |          |         |          |
|---|--------------------------------------|-----------|---------------|----------|----------|----------|---------|----------|
|   | PFI Excluding                        |           |               |          |          |          |         |          |
|   | Closed Block                         | Japanese  | PFI Excluding | Closed   | Total(3) |          |         |          |
|   | Division and                         | Insurance | Closed Block  | Block    |          |          |         |          |
| Japanese  | Operations                           | Division  | Division      |          |          |          |         |          |
| Operations  |                                      |           |               |          |          |          |         |          |
| Yield(1)  | Amount                               | Yield(1)  | Amount        | Yield(1) | Amount   | Amount   | Amount  |          |
| (\$ in millions)  |                                      |           |               |          |          |          |         |          |
| Fixed maturities  | 4.57 %                               | \$4,790   | 3.05 %        | \$2,704  | 3.88 %   | \$7,494  | \$1,315 | \$8,809  |
| Trading account assets supporting insurance liabilities | 3.60                                 | 523       | 2.00          | 35       | 3.43     | 558      | 0       | 558      |
| Equity securities                                       | 6.58                                 | 195       | 5.30          | 59       | 6.23     | 254      | 40      | 294      |
| Commercial mortgage and other loans                     | 4.08                                 | 954       | 4.07          | 380      | 4.07     | 1,334    | 343     | 1,677    |
| Policy loans  | 5.38                                 | 187       | 3.98          | 72       | 4.90     | 259      | 202     | 461      |
| Short-term investments and cash equivalents             | 1.23                                 | 107       | 1.33          | 10       | 1.24     | 117      | 19      | 136      |
| Other investments                                       | 7.41                                 | 363       | 6.31          | 100      | 7.15     | 463      | 196     | 659      |
| Gross investment income                                 | 4.40                                 | 7,119     | 3.21          | 3,360    | 3.93     | 10,479   | 2,115   | 12,594   |
| Investment expenses                                     | (0.14)                               | (226 )    | (0.12)        | (135 )   | (0.13)   | (361 )   | (132 )  | (493 )   |
| Investment income after investment expenses             | 4.26 %                               | 6,893     | 3.09 %        | 3,225    | 3.80 %   | 10,118   | 1,983   | 12,101   |
| Investment results of other entities and operations(2)  |                                      | 125       |               | 0        |          | 125      | 0       | 125      |
| Total investment income                                 |                                      | \$7,018   |               | \$3,225  |          | \$10,243 | \$1,983 | \$12,226 |

|   | Nine Months Ended September 30, 2016 |           |               |          |          |         |         |          |
|---|--------------------------------------|-----------|---------------|----------|----------|---------|---------|----------|
|   | PFI Excluding                        |           |               |          |          |         |         |          |
|   | Closed Block                         | Japanese  | PFI Excluding | Closed   | Total(3) |         |         |          |
|   | Division and                         | Insurance | Closed Block  | Block    |          |         |         |          |
| Japanese  | Operations                           | Division  | Division      |          |          |         |         |          |
| Operations  |                                      |           |               |          |          |         |         |          |
| Yield(1)  | Amount                               | Yield(1)  | Amount        | Yield(1) | Amount   | Amount  | Amount  |          |
| (\$ in millions)  |                                      |           |               |          |          |         |         |          |
| Fixed maturities  | 4.61 %                               | \$4,482   | 3.10 %        | \$2,576  | 3.92 %   | \$7,058 | \$1,280 | \$8,338  |
| Trading account assets supporting insurance liabilities | 3.80                                 | 540       | 2.01          | 32       | 3.61     | 572     | 0       | 572      |
| Equity securities                                       | 6.83                                 | 183       | 4.75          | 56       | 6.19     | 239     | 46      | 285      |
| Commercial mortgage and other loans                     | 4.31                                 | 973       | 4.25          | 329      | 4.29     | 1,302   | 357     | 1,659    |
| Policy loans  | 5.46                                 | 188       | 3.96          | 71       | 4.95     | 259     | 210     | 469      |
| Short-term investments and cash equivalents             | 0.58                                 | 81        | 0.64          | 6        | 0.59     | 87      | 16      | 103      |
| Other investments                                       | 5.02                                 | 208       | 4.65          | 99       | 4.90     | 307     | 162     | 469      |
| Gross investment income                                 | 4.23                                 | 6,655     | 3.23          | 3,169    | 3.85     | 9,824   | 2,071   | 11,895   |
| Investment expenses                                     | (0.14)                               | (187 )    | (0.12)        | (122 )   | (0.13)   | (309 )  | (118 )  | (427 )   |
| Investment income after investment expenses             | 4.09 %                               | 6,468     | 3.11 %        | 3,047    | 3.72 %   | 9,515   | 1,953   | 11,468   |
| Investment results of other entities and operations(2)  |                                      | 64        |               | 0        |          | 64      | 0       | 64       |
| Total investment income                                 |                                      | \$6,532   |               | \$3,047  |          | \$9,579 | \$1,953 | \$11,532 |

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- Yields are annualized, for interim periods, and are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost.
- (1) Yields for equity securities are based on cost. 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.
- (2) Includes net investment income of our asset management operations and derivative operations.

(3) The total yield was 3.94% and 3.87% for the nine months ended September 30, 2017 and 2016, respectively.

The increase 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 nine months ended September 30, 2017, compared to the nine months ended September 30, 2016, was primarily the result of higher yields from non-coupon investments, partially offset by lower fixed maturity prepayment fees and call premiums.

The decrease in net investment income yield on the Japanese insurance operations' portfolio, for the nine months ended September 30, 2017, compared to the nine months ended September 30, 2016, was primarily attributable to lower fixed income reinvestment rates, partially offset by higher yields from non-coupon investments and higher fixed maturity prepayment fees and call premiums.

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 \$41.2 billion and \$37.1 billion for the nine months ended September 30, 2017 and 2016, 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 \$9.5 billion for the nine months ended September 30, 2017 and 2016, 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—Impact of Foreign Currency Exchange Rates.”

#### Retail-Related Investments

As of September 30, 2017, PFI excluding the Closed Block division had retail-related investments of approximately \$15 billion consisting primarily of \$7 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 2.42 times; and \$1 billion of real estate held through direct ownership and real estate-related joint ventures and limited partnerships.

In addition, we held approximately \$9 billion of commercial mortgage-backed securities, of which approximately 90% 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.”

#### 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 6 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

#### Fixed Maturity Securities

#### 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)                    | September 30, 2017 |                           |                            |            | December 31, 2016 |                           |                            |            |
|--------------------------------|--------------------|---------------------------|----------------------------|------------|-------------------|---------------------------|----------------------------|------------|
|                                | 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                        | \$25,833           | \$ 1,581                  | \$ 102                     | \$27,312   | \$24,324          | \$ 1,260                  | \$ 322                     | \$25,262   |
| Consumer non-cyclical          | 24,473             | 2,192                     | 161                        | 26,504     | 22,941            | 1,918                     | 423                        | 24,436     |
| Utility                        | 21,975             | 1,972                     | 153                        | 23,794     | 19,618            | 1,556                     | 385                        | 20,789     |
| Capital goods                  | 11,085             | 998                       | 74                         | 12,009     | 10,936            | 911                       | 236                        | 11,611     |
| Consumer cyclical              | 10,709             | 827                       | 74                         | 11,462     | 10,348            | 792                       | 143                        | 10,997     |
| Foreign agencies               | 5,681              | 980                       | 18                         | 6,643      | 5,423             | 1,035                     | 41                         | 6,417      |
| Energy                         | 10,049             | 867                       | 166                        | 10,750     | 9,220             | 774                       | 275                        | 9,719      |
| Communications                 | 5,839              | 658                       | 65                         | 6,432      | 6,227             | 667                       | 121                        | 6,773      |
| Basic industry                 | 6,020              | 497                       | 46                         | 6,471      | 5,843             | 401                       | 114                        | 6,130      |
| Transportation                 | 8,063              | 720                       | 40                         | 8,743      | 7,442             | 625                       | 116                        | 7,951      |
| Technology                     | 4,167              | 268                       | 34                         | 4,401      | 3,775             | 251                       | 66                         | 3,960      |
| Industrial other               | 3,820              | 291                       | 38                         | 4,073      | 3,653             | 226                       | 92                         | 3,787      |
| Total corporate securities     | 137,714            | 11,851                    | 971                        | 148,594    | 129,750           | 10,416                    | 2,334                      | 137,832    |
| Foreign government(3)          | 87,465             | 15,983                    | 439                        | 103,009    | 80,309            | 16,967                    | 344                        | 96,932     |
| Residential mortgage-backed(4) | 4,184              | 216                       | 7                          | 4,393      | 4,352             | 256                       | 13                         | 4,595      |
| Asset-backed                   | 7,458              | 167                       | 10                         | 7,615      | 8,182             | 193                       | 26                         | 8,349      |
| Commercial mortgage-backed     | 8,662              | 218                       | 54                         | 8,826      | 8,883             | 195                       | 86                         | 8,992      |
| U.S. Government                | 15,969             | 3,109                     | 544                        | 18,534     | 17,090            | 2,725                     | 924                        | 18,891     |
| State & Municipal              | 8,914              | 880                       | 19                         | 9,775      | 8,648             | 642                       | 82                         | 9,208      |
| Total(5)                       | \$270,366          | \$ 32,424                 | \$ 2,044                   | \$300,746  | \$257,214         | \$ 31,394                 | \$ 3,809                   | \$284,799  |

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

Includes \$391 million of gross unrealized gains and less than \$1 million of gross unrealized losses, as of

(2) September 30, 2017, compared to \$380 million of gross unrealized gains and \$0 million of gross unrealized losses, as of December 31, 2016, on securities classified as held-to-maturity.

As of both September 30, 2017 and December 31, 2016, based on amortized cost, 76% represent Japanese

(3) government bonds held by our Japanese insurance operations with no other individual country representing more than 10% of the balance.

(4) As of September 30, 2017 and December 31, 2016, based on amortized cost, more than 99% and 95% were rated A or higher, respectively.

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

(5) Entities and Operations” below. Also excluded from the table above are fixed maturity securities classified as trading. See “—Trading Account Assets Supporting Insurance Liabilities” and “—Other Trading Account Assets” for additional information.

The increase in net unrealized gains from December 31, 2016 to September 30, 2017 was primarily due to a decrease in U.S. interest rates and credit spread tightening.

#### 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)                         | September 30, 2017 |                           |                            |               | December 31, 2016 |                           |                            |               |
|--|--------------------|---------------------------|----------------------------|---------------|-------------------|---------------------------|----------------------------|---------------|
|  | Amortized Cost     | Gross Unrealized Gains(3) | Gross Unrealized Losses(3) | Fair Value(4) | Amortized Cost    | Gross Unrealized Gains(3) | Gross Unrealized Losses(3) | Fair Value(4) |
|  | (in millions)      |                           |                            |               |                   |                           |                            |               |
| 1  | \$205,991          | \$27,209                  | \$1,408                    | \$231,792     | \$195,279         | \$26,886                  | \$2,425                    | \$219,740     |
| 2  | 50,953             | 4,392                     | 428                        | 54,917        | 49,286            | 3,728                     | 1,081                      | 51,933        |
| Subtotal High or Highest Quality Securities(5) | 256,944            | 31,601                    | 1,836                      | 286,709       | 244,565           | 30,614                    | 3,506                      | 271,673       |
| 3  | 8,909              | 523                       | 103                        | 9,329         | 8,546             | 454                       | 182                        | 8,818         |
| 4  | 3,410              | 208                       | 64                         | 3,554         | 2,878             | 200                       | 82                         | 2,996         |
| 5  | 876                | 52                        | 34                         | 894           | 879               | 73                        | 28                         | 924           |
| 6  | 227                | 40                        | 7                          | 260           | 346               | 53                        | 11                         | 388           |
| Subtotal Other Securities(6)(7)                | 13,422             | 823                       | 208                        | 14,037        | 12,649            | 780                       | 303                        | 13,126        |
| Total Fixed Maturities                         | \$270,366          | \$32,424                  | \$2,044                    | \$300,746     | \$257,214         | \$31,394                  | \$3,809                    | \$284,799     |

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

Includes, as of September 30, 2017 and December 31, 2016, 808 securities with amortized cost of \$4,960 million

(2) (fair value, \$5,006 million) and 918 securities with amortized cost of \$4,634 million (fair value, \$4,759 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

(3) September 30, 2017, compared to \$380 million of gross unrealized gains and \$0 million of gross unrealized losses, as of December 31, 2016, on securities classified as held-to-maturity.

As of September 30, 2017, includes gross unrealized losses of \$105 million on public fixed maturities and \$103

(4) million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2016, includes gross unrealized losses of \$149 million on public fixed maturities and \$154 million on private fixed maturities considered to be other than high or highest quality.

On an amortized cost basis, as of September 30, 2017, includes \$220,973 million of public fixed maturities and

(5) \$35,971 million of private fixed maturities and, as of December 31, 2016, includes \$211,753 million of public fixed maturities and \$32,812 million of private fixed maturities.

On an amortized cost basis, as of September 30, 2017, includes \$7,560 million of public fixed maturities and

(6) \$5,862 million of private fixed maturities and, as of December 31, 2016, includes \$7,170 million of public fixed maturities and \$5,479 million of private fixed maturities.

(7)



On an amortized cost basis, as of September 30, 2017, securities considered below investment grade based on lowest of external rating agency ratings, total \$14,412 million, or 5% 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) | September 30, 2017         |            |  |            | December 31, 2016          |            |  |            |
|--------------------------------|----------------------------|------------|--|------------|----------------------------|------------|--|------------|
|                                | 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                            | \$6,653                    | \$6,687    | \$7,808                                  | \$7,966    | \$7,147                    | \$7,200    | \$7,955                                  | \$8,063    |
| AA                             | 425                        | 445        | 822                                      | 828        | 463                        | 473        | 877                                      | 880        |
| A                              | 43                         | 50         | 23                                       | 23         | 56                         | 62         | 42                                       | 41         |
| BBB                            | 51                         | 53         | 9  | 9          | 58                         | 58         | 9  | 8          |
| BB and below                   | 286                        | 380        | 0  | 0          | 458                        | 556        | 0  | 0          |
| Total(4)                       | \$7,458                    | \$7,615    | \$8,662                                  | \$8,826    | \$8,182                    | \$8,349    | \$8,883                                  | \$8,992    |

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of September 30, 2017, 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 September 30, 2017 and December 31, 2016, based on amortized cost, 77% and 76%, respectively, were collateralized loan obligations rated A or higher.

(3) As of September 30, 2017 and December 31, 2016, based on amortized cost, 95% and 93%, respectively, were securities with vintages of 2013 or later.

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

#### Credit Derivative Exposure to Public Fixed Maturities

In addition to the credit exposure from public fixed maturities noted above, we sell credit derivatives to enhance the return on our investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments.

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 thirty 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 September 30, 2017 and December 31, 2016, PFI excluding the Closed Block division had \$590 million and \$162 million of notional amounts of exposure, where we have sold credit protection through credit derivatives, respectively, reported at fair value as an asset of \$7 million and less than \$1 million. "Realized investment gains (losses), net" from credit derivatives we sold were a gain of less than \$1 million and \$2 million for the three months ended September 30, 2017 and 2016 and a gain of \$1 million and \$6 million for the nine months ended September 30, 2017 and 2016, respectively. December 31, 2016 excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance, which was terminated as of September 30, 2017. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information regarding this derivative.

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 September 30, 2017 and December 31, 2016, PFI excluding the Closed Block division had \$100 million and \$141 million of notional amounts, respectively, reported at fair value as a liability of \$3 million and \$4 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 September 30, 2017 and 2016 and a loss of \$2 million and \$4 million for the nine months ended September 30, 2017 and 2016, respectively. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information regarding credit derivatives and an overall description of our derivative activities.

## 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 asset 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 asset 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, 2016.

OTTI of general account fixed maturity securities attributable to PFI excluding the Closed Block division that were recognized in earnings were \$18 million and \$16 million for the three months ended September 30, 2017 and 2016, respectively, and \$83 million and \$101 million for the nine months ended September 30, 2017 and 2016, respectively. For a further discussion of OTTI, see “—Realized Investment Gains and Losses” above.

### Trading Account Assets Supporting Insurance Liabilities (TAASIL)

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

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

(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 September 30, 2017 and December 31, 2016.

(2) As a percentage of amortized cost, 80% of the portfolio was publicly-traded as of both September 30, 2017 and December 31, 2016.

### Other Trading Account Assets

Other trading account assets consist primarily of certain financial instruments that contain an embedded derivative where we elected to classify the entire instrument as a trading account asset rather than bifurcate. These instruments are carried at fair value, with realized and unrealized gains (losses) reported in “Other income” and excluded from adjusted operating income. Interest and dividend income from these investments is reported in “Net investment income” and is included in adjusted operating income.

The following table sets forth the composition of our other trading account assets attributable to PFI excluding the Closed Block division, as of the dates indicated:

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|   | September 30,<br>2017        |               | December 31,<br>2016         |               |
|---|------------------------------|---------------|------------------------------|---------------|
|   | Amortized<br>Cost or<br>Cost | Fair<br>Value | Amortized<br>Cost or<br>Cost | Fair<br>Value |
|   | (in millions)                |               |                              |               |
| Short-term investments and cash equivalents | \$0                          | \$0           | \$1                          | \$1           |
| Fixed maturities(1)                         | 1,460                        | 1,445         | 1,201                        | 1,058         |
| Equity securities(2)                        | 406                          | 468           | 412                          | 462           |
| Total other trading account assets          | \$1,866                      | \$1,913       | \$1,614                      | \$1,521       |

(1) As a percentage of amortized cost, 90% and 89% of the portfolio was considered high or highest quality based on NAIC or equivalent ratings, as of September 30, 2017 and December 31, 2016, respectively.

(2) Included in equity securities are perpetual preferred stock securities that have characteristics of both debt and equity securities.

### 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:

|   | September<br>30, 2017 | December<br>31, 2016 |
|---|-----------------------|----------------------|
|   | (in millions)         |                      |
| Commercial mortgage and agricultural property loans | \$44,866              | \$41,964             |
| Uncollateralized loans                              | 673                   | 636                  |
| Residential property loans                          | 210                   | 252                  |
| Other collateralized loans                          | 6                     | 9                    |
| Total recorded investment gross of allowance(1)     | 45,755                | 42,861               |
| Valuation allowance                                 | (94)                  | (90)                 |
| Total net commercial mortgage and other loans(2)    | \$45,661              | \$42,771             |

(1) As a percentage of recorded investment gross of allowance, more than 99% of these assets were current as of both September 30, 2017 and December 31, 2016.

(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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|  | September 30,<br>2017      |               | December 31,<br>2016       |               |
|--|----------------------------|---------------|----------------------------|---------------|
|  | Gross<br>Carrying<br>Value | % of<br>Total | Gross<br>Carrying<br>Value | % of<br>Total |
| Commercial mortgage and agricultural property loans by region: |                            |               |                            |               |
| U.S. Regions(1):   |                            |               |                            |               |
| Pacific  | \$14,428                   | 32.2 %        | \$13,817                   | 32.9 %        |
| South Atlantic   | 8,711                      | 19.4          | 8,066                      | 19.2          |
| Middle Atlantic  | 5,781                      | 12.9          | 5,476                      | 13.1          |
| East North Central   | 2,401                      | 5.3           | 2,341                      | 5.6           |
| West South Central   | 4,706                      | 10.5          | 4,506                      | 10.7          |
| Mountain   | 2,077                      | 4.6           | 1,796                      | 4.3           |
| New England  | 1,725                      | 3.8           | 1,774                      | 4.2           |
| West North Central   | 632                        | 1.4           | 621                        | 1.5           |
| East South Central   | 616                        | 1.4           | 595                        | 1.4           |
| Subtotal-U.S.  | 41,077                     | 91.5          | 38,992                     | 92.9          |
| Europe   | 2,303                      | 5.1           | 1,725                      | 4.1           |
| Asia   | 566                        | 1.3           | 504                        | 1.2           |
| Other  | 920                        | 2.1           | 743                        | 1.8           |
| Total commercial mortgage and agricultural property loans      | \$44,866                   | 100.0%        | \$41,964                   | 100.0%        |

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

|   | September 30,<br>2017      |               | December 31,<br>2016       |               |
|---|----------------------------|---------------|----------------------------|---------------|
|   | Gross<br>Carrying<br>Value | % of<br>Total | Gross<br>Carrying<br>Value | % of<br>Total |
| Commercial mortgage and agricultural property loans by property type: |                            |               |                            |               |
| Industrial  | \$7,830                    | 17.5 %        | \$6,899                    | 16.5 %        |
| Retail  | 6,799                      | 15.2          | 6,562                      | 15.6          |
| Office  | 9,820                      | 21.9          | 9,619                      | 22.9          |
| Apartments/Multi-Family   | 12,827                     | 28.6          | 11,488                     | 27.4          |
| Other   | 3,520                      | 7.8           | 3,368                      | 8.0           |
| Agricultural properties   | 2,442                      | 5.4           | 2,279                      | 5.4           |
| Hospitality   | 1,628                      | 3.6           | 1,749                      | 4.2           |
| Total commercial mortgage and agricultural property loans             | \$44,866                   | 100.0%        | \$41,964                   | 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 September 30, 2017, our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division had a weighted-average debt service coverage ratio of 2.45 times and a weighted-average loan-to-value ratio of 55%. As of September 30, 2017, 96% of commercial mortgage and agricultural property loans were fixed rate loans. For those commercial mortgage and agricultural property loans that were originated in 2017, the weighted-average debt service coverage ratio was 2.69 times, and the weighted-average loan-to-value ratio was 63%.

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 \$0.9 billion and \$1.4 billion of such loans as of September 30, 2017 and December 31, 2016, respectively. All else being equal, these loans are inherently more risky than those collateralized by properties that have already stabilized. As of September 30, 2017, 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                                       | September 30, 2017          |                |        |   |
|---|-----------------------------|----------------|--------|---|
|   | Debt Service Coverage Ratio |                |        | Total Commercial Mortgage and Agricultural Property Loans |
|   | > 1.2x                      | 1.0x to < 1.2x | < 1.0x |   |
|   | (in millions)               |                |        |   |
| 0%-59.99%   | \$25,636                    | \$510          | \$278  | \$ 26,424   |
| 60%-69.99%  | 11,815                      | 365            | 122    | 12,302  |
| 70%-79.99%  | 5,433                       | 489            | 29     | 5,951   |
| 80% or greater  | 88                          | 43             | 58     | 189   |
| Total commercial mortgage and agricultural property loans | \$42,972                    | \$1,407        | \$487  | \$ 44,866   |

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 | September 30, 2017   |            |
|---------------------|----------------------|------------|
|                     | Gross Carrying Value | % of Total |
|                     | (\$ in millions)     |            |
| 2017                | \$5,599              | 12.5 %     |
| 2016                | 7,368                | 16.4       |

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|   |          |        |
|---|----------|--------|
| 2015  | 7,647    | 17.0   |
| 2014  | 6,860    | 15.3   |
| 2013  | 7,185    | 16.0   |
| 2012  | 3,528    | 7.9    |
| 2011  | 2,963    | 6.6    |
| 2010 & Prior  | 3,716    | 8.3    |
| Total commercial mortgage and agricultural property loans | \$44,866 | 100.0% |

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## Commercial Mortgage and Other Loans Quality

Ongoing review of the portfolio is performed, and loans are assigned to one of five categories based on a predefined set of risk criteria. Loans are placed on the watch list when they are determined to be “closely monitored” or “not in good standing.” The criteria for classifying a loan as closely monitored 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 at the direction of the portfolio manager. Loans not in good standing are those loans where the loan is in default or there is 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:

|   | September<br>30,<br>2017 | December<br>31, 2016 |
|---|--------------------------|----------------------|
|   | (in millions)            |                      |
| Allowance, beginning of year                  | \$90                     | \$ 95                |
| Addition to (release of) allowance for losses | 4                        | (6 )                 |
| Charge-offs, net of recoveries                | 0                        | 0                    |
| Change in foreign exchange                    | 0                        | 1                    |
| Allowance, end of period                      | \$94                     | \$ 90                |
| Loan-specific reserve                         | \$6                      | \$ 6                 |
| Portfolio reserve                             | \$88                     | \$ 84                |

The allowance for losses as of September 30, 2017 remained relatively flat compared to December 31, 2016.

## 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:

| September 30, 2017 |       |       |      | December 31, 2016 |       |       |      |
|--------------------|-------|-------|------|-------------------|-------|-------|------|
| Cost               | Gross | Gross | Fair | Cost              | Gross | Gross | Fair |

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|                                 | Unrealized Gains |          | Unrealized Losses | Value   |         | Unrealized Gains |       | Unrealized Losses | Value   |  |
|---------------------------------|------------------|----------|-------------------|---------|---------|------------------|-------|-------------------|---------|--|
|                                 | (in millions)    |          |                   |         |         |                  |       |                   |         |  |
| Mutual funds(1)                 | \$3,408          | \$ 689   | \$ 0              | \$4,097 | \$3,193 | \$ 545           | \$ 2  |                   | \$3,736 |  |
| Other common stocks             | 2,073            | 1,173    | 16                | 3,230   | 2,207   | 1,229            | 16    |                   | 3,420   |  |
| Non-redeemable preferred stocks | 7                | 1        | 1                 | 7       | 9       | 0                | 2     |                   | 7       |  |
| Total equity securities(2)      | \$5,488          | \$ 1,863 | \$ 17             | \$7,334 | \$5,409 | \$ 1,774         | \$ 20 |                   | \$7,163 |  |

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- (1) Includes mutual fund shares representing our interest in the underlying assets of certain investments supporting corporate-owned life insurance. These mutual funds invest primarily in high yield bonds.
- (2) Amounts presented exclude investments in private equity and hedge funds and other investments which are reported in “Other long-term investments.”

#### OTTI of Equity Securities

For those equity securities classified as available-for-sale, we record unrealized gains (losses) to the extent that cost is different from estimated fair value. All securities with unrealized losses are subject to our review to identify OTTI in value. For additional information regarding our OTTI policies for equity securities, see Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

OTTI of equity securities attributable to PFI excluding the Closed Block division that were recognized in earnings were \$12 million and \$20 million for the three months ended September 30, 2017 and 2016, respectively, and \$20 million and \$55 million for the nine months ended September 30, 2017 and 2016, respectively. For a further discussion of OTTI, see “—Realized Investment Gains and Losses” above.

#### Other Long-Term Investments

The following table sets forth the composition of “Other long-term investments,” which consists primarily of investments in joint ventures and limited partnerships, other than operating joint ventures, as well as wholly-owned investment real estate and other investments attributable to PFI excluding the Closed Block division, as of the dates indicated:

|  | September<br>30,<br>2017 | December<br>31, 2016 |
|--|--------------------------|----------------------|
|  | (in millions)            |                      |
| Joint ventures and limited partnerships:     |                          |                      |
| Private equity                               | \$2,743                  | \$ 2,619             |
| Hedge funds                                  | 1,719                    | 1,708                |
| Real estate-related                          | 326                      | 451                  |
| Real estate held through direct ownership(1) | 1,844                    | 1,677                |
| Other(2)                                     | 678                      | 776                  |
| Total other long-term investments            | \$7,310                  | \$ 7,231             |

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

- Primarily includes leveraged leases, member and activity stock held in the Federal Home Loan Banks of New York and Boston and certain derivatives. 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, 2016.
- (2)

#### OTTI of Other Long-Term Investments

For joint ventures and limited partnerships, 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 joint ventures and limited partnerships, other than operating joint ventures, 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, 2016.

OTTI on joint ventures and limited partnerships attributable to PFI excluding the Closed Block division that were recognized in earnings were \$4 million and \$11 million for three months ended September 30, 2017 and 2016, respectively, and \$12 million and \$51 million for the nine months ended September 30, 2017 and 2016, 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 asset 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 asset management operations that are managed for third parties and those assets classified as “Separate account assets” on our balance sheet are not included.

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|   | September<br>30,<br>2017 | December<br>31, 2016 |
|---|--------------------------|----------------------|
|   | (in millions)            |                      |
| Fixed maturities:                                     |                          |                      |
| Public, available-for-sale, at fair value             | \$429                    | \$ 237               |
| Private, available-for-sale, at fair value            | 1                        | 3                    |
| Other trading account assets, at fair value           | 3,963                    | 3,959                |
| Equity securities, available-for-sale, at fair value  | 14                       | 13                   |
| Commercial mortgage and other loans, at book value(1) | 380                      | 571                  |
| Other long-term investments                           | 1,509                    | 1,032                |
| Short-term investments                                | 22                       | 14                   |
| Total investments                                     | \$6,318                  | \$ 5,829             |

(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.

#### Other Trading Account Assets

Other trading account assets are primarily related to assets associated with consolidated variable interest entities for which the Company is the investment manager, as well as our derivative operations used to manage interest rate, foreign currency, credit and equity exposures. 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 5 to the Unaudited Interim Consolidated Financial Statements.

#### Commercial Mortgage and Other Loans

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

The mortgage loans of our commercial mortgage operations are included in “Commercial mortgage and other loans,” with related derivatives and other hedging instruments primarily included in “Other trading account assets” and “Other long-term investments.”

#### Other Long-Term Investments

Other long-term investments primarily include strategic investments made as part of our asset 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 asset management operations, we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds. Other long-term investments 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.

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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 “Regulatory Developments” above and “Business—Regulation” and “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2016.

During the nine months ended September 30, 2017, we took the following significant actions that impacted our liquidity and capital position:

- We repurchased \$937 million of shares of our Common Stock and declared aggregate Common Stock dividends of \$979 million;
- We issued \$750 million of junior subordinated notes to be utilized for general corporate purposes, which may include refinancing our \$600 million aggregate principal amount of 8.875% fixed-to-floating rate junior subordinated notes and portions of our medium-term notes maturing through 2018;
- We obtained additional financing for Guideline AXXX reserves by entering into a new captive financing facility for \$1.0 billion, of which \$560 million was outstanding as of September 30, 2017; and
- We redeemed \$500 million of surplus notes in one of our captive financing facilities supporting Guideline AXXX reserves.

### 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 September 30, 2017, the Company had \$46.2 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.

|  | September<br>30,<br>2017 | December<br>31,<br>2016 |
|--|--------------------------|-------------------------|
|  | (in millions)            |                         |
| Equity(1)  | \$33,775                 | \$ 31,242               |
| Junior subordinated debt (including hybrid securities) | 6,621                    | 5,817                   |
| Other capital debt                                     | 5,765                    | 5,822                   |
| Total capital  | \$46,161                 | \$ 42,881               |

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

We manage Prudential Insurance, The Prudential Life Insurance Company, Ltd. (“Prudential of Japan”), Gibraltar Life, and our other domestic and international 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 international insurance subsidiaries.

The table below presents the RBC ratios of our most significant domestic insurance subsidiaries as of December 31, 2016, the most recent statutory fiscal year-end and RBC reporting date for these subsidiaries.

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|  | Ratio(1) |
|--|----------|
| Prudential Insurance(2)                        | 457 %    |
| PALAC  | 867 %    |
| Composite Major U.S. Insurance Subsidiaries(3) | 527 %    |

(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 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 table below presents the solvency margin ratios of our most significant international insurance subsidiaries as of June 30, 2017, the most recent date for which this information is available.

|                                     | Ratio |
|-------------------------------------|-------|
| Prudential of Japan consolidated(1) | 844 % |
| Gibraltar Life consolidated(2)      | 902 % |

(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.

We evaluate the regulatory capital of our domestic and international insurance operations under reasonably foreseeable stress scenarios and believe we have adequate resources to maintain our capital levels comfortably above regulatory requirements under these scenarios. 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, 2016.

### 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 and competitive RBC ratios and solvency margins 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, derivatives, and contingent sources of capital. We believe we currently have access to sufficient resources to maintain adequate capitalization and competitive RBC ratios and solvency margins 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, 2016, for a discussion of our use of captive reinsurance companies.

### Shareholder Distributions

#### Share Repurchase Program and Shareholder Dividends

In December 2016, our Board of Directors (“the Board”) authorized the Company to repurchase at management’s discretion up to \$1.25 billion of its outstanding Common Stock during the period from January 1, 2017 through December 31, 2017.

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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 nine months ended September 30, 2017.

|                     | Dividend<br>Amount                   | Shares Repurchased |        |            |
|---------------------|--------------------------------------|--------------------|--------|------------|
| Three months ended: | Per Share                            | Aggregate          | Shares | Total Cost |
|                     | (in millions, except per share data) |                    |        |            |
| March 31, 2017      | \$0.75                               | \$ 327             | 2.9    | \$ 312     |
| June 30, 2017       | \$0.75                               | \$ 328             | 2.9    | \$ 313     |
| September 30, 2017  | \$0.75                               | \$ 324             | 2.9    | \$ 312     |

As a Designated Financial Company under Dodd-Frank, Prudential Financial expects to be subject to stricter requirements and limitations regarding capital, leverage and liquidity. Our compliance with these and other requirements under Dodd-Frank could limit our ability to pay Common Stock dividends and repurchase shares in the future.

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.

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 September 30, 2017, Prudential Financial had highly liquid assets with a carrying value totaling \$5,433 million, an increase of \$40 million from December 31, 2016. 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 net borrowings from this intercompany liquidity account, Prudential Financial had highly liquid assets of \$4,390 million as of September 30, 2017, a decrease of \$163 million from December 31, 2016.

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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.

|  |  |
|--|--|
|  | Nine<br>Months<br>Ended<br>September<br>30, 2017<br>(in<br>millions) |
| Sources:   |  |
| Dividends and/or returns of capital from subsidiaries(1)                           | \$ 1,717   |
| Proceeds from the issuance of junior subordinated debt                             | 743  |
| Net receipts under intercompany loan agreements(2)                                 | 484  |
| Proceeds from stock-based compensation and exercise of stock options               | 412  |
| Interest income from subsidiaries on intercompany agreements, net of interest paid | 29   |
| Other, net   | 7  |
| Total sources  | 3,392  |
| Uses:  |  |
| Common stock dividends(3)  | 976  |
| Share repurchases(4)   | 927  |
| Capital contributions to subsidiaries(5)   | 864  |
| Interest paid on external debt   | 557  |
| Maturities of medium-term notes  | 116  |
| Net income tax payments  | 99   |
| Repayments from short-term debt, net of proceeds                                   | 16   |
| Total uses   | 3,555  |
| Net increase (decrease) in highly liquid assets                                    | \$ (163 )  |

Includes dividends and/or returns of capital of \$1,000 million from Prudential Insurance, \$406 million from (1) Prudential Annuities Holding Company, \$187 million from Asset Management subsidiaries, \$115 million from International Insurance subsidiaries and \$9 million from other subsidiaries.

Includes net receipts of \$757 million from the issuance of notes to International Insurance subsidiaries, offset by (2) net payments of \$250 million to Prudential Universal Reinsurance Company, \$16 million to Asset Management subsidiaries and \$7 million to other subsidiaries.

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

(4) Excludes \$10 million related to trades that settled in October 2017.

(5) Includes capital contributions of \$694 million to International Insurance subsidiaries, \$148 million to Prudential Insurance and \$22 million to Asset Management 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, 2016, 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 nine months of 2017, Prudential Financial received an ordinary dividend of \$1.0 billion from Prudential Insurance and extraordinary dividends of \$300 million from PALAC.

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.

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As of September 30, 2017, Prudential Holdings of Japan, Inc. (“PHJ”), the parent of the Company’s Japanese operations, retained \$247 million of dividends received from its international insurance subsidiaries in 2016, that remained available to be paid as a dividend to Prudential Financial.

Other subsidiaries. The ability of our asset 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.

|                                    | September 30, 2017                       |        |        |        |               |         | December |
|------------------------------------|--|--------|--------|--------|---------------|---------|----------|
|                                    | Prudential<br>Insurance<br>(in billions) | PLIC   | PRIAC  | PALAC  | Pruco<br>Life | Total   | 31, 2016 |
| Cash and short-term investments    | \$5.4                                    | \$1.3  | \$0.7  | \$3.4  | \$0.2         | \$11.0  | \$12.4   |
| Fixed maturity investments(1):     |  |        |        |        |               |         |          |
| High or highest quality            | 102.2                                    | 36.3   | 19.5   | 9.7    | 4.7           | 172.4   | 164.7    |
| Other than high or highest quality | 7.0                                      | 3.3    | 1.6    | 0.4    | 0.4           | 12.7    | 13.2     |
| Subtotal                           | 109.2                                    | 39.6   | 21.1   | 10.1   | 5.1           | 185.1   | 177.9    |
| Public equity securities           | 0.3                                      | 2.5    | 0.0    | 0.0    | 0.0           | 2.8     | 3.0      |
| Total                              | \$114.9                                  | \$43.4 | \$21.8 | \$13.5 | \$5.3         | \$198.9 | \$193.3  |

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

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

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|                                    | September 30, 2017                         |                      |                 |         | December |
|------------------------------------|--|----------------------|-----------------|---------|----------|
|                                    | Prudential<br>of<br>Japan<br>(in billions) | Gibraltar<br>Life(1) | All<br>Other(2) | Total   | 31, 2016 |
| Cash and short-term investments    | \$0.8                                      | \$ 2.1               | \$ 1.7          | \$4.6   | \$ 5.4   |
| Fixed maturity investments(3):     |  |                      |                 |         |          |
| High or highest quality(4)         | 36.0                                       | 91.7                 | 17.7            | 145.4   | 137.8    |
| Other than high or highest quality | 1.1  | 2.8                  | 1.6             | 5.5     | 4.3      |
| Subtotal                           | 37.1                                       | 94.5                 | 19.3            | 150.9   | 142.1    |
| Public equity securities           | 1.8  | 2.1                  | 0.9             | 4.8     | 4.8      |
| Total                              | \$39.7                                     | \$ 98.7              | \$ 21.9         | \$160.3 | \$ 152.3 |

(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 September 30, 2017, \$103.3 billion, or 71%, were invested in government or government agency bonds.

#### Liquidity associated with other activities

##### Hedging activities associated with living benefit guarantees

For the portion of our Individual Annuities' ALM strategy executed through hedging, 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. Retirement Solutions and Investment Management Division—Individual Annuities." This portion of our Individual Annuities' ALM strategy 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 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 September 30, 2017, the derivatives comprising the hedging portion of our ALM strategy were in a net receive position of \$3.7 billion compared to a net receive position of \$3.1 billion as of December 31, 2016. The change in collateral position was primarily driven by a decrease 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 September 30, 2017, we have hedged

100%, 99%, 62% and 15% of expected yen-based earnings for 2017, 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.

|                             | Nine Months<br>Ended<br>September 30,<br>2017 2016<br>(in millions) |        |
|-----------------------------|---|--------|
| Cash Settlements:           |   |        |
| Income Hedges (External)(1) | \$ (5 )   | \$ 32  |
| Equity Hedges:              |   |        |
| Internal(2)                 | 10  | (154 ) |
| External                    | (150 )  | 652    |
| Total Equity Hedges         | (140 )  | 498    |
| Total Cash Settlements      | \$ (145)  | \$ 530 |

|                             | As of<br>September 30,<br>2017 2016<br>(in millions) |        |
|-----------------------------|--|--------|
| Assets (Liabilities):       |  |        |
| Income Hedges (External)(3) | \$ (26 )   | \$ 85  |
| Equity Hedges:              |  |        |
| Internal(2)                 | 640  | 802    |
| External                    | 252  | 32     |
| Total Equity Hedges(4)      | 892  | 834    |
| Total Assets (Liabilities)  | \$ 866   | \$ 919 |

Includes non-yen related cash settlements of \$(6) million, primarily denominated in Brazilian real and Chilean (1) peso, and \$11 million, primarily denominated in Korean won, for the nine months ended September 30, 2017 and 2016, respectively.

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

Includes non-yen related liabilities of \$(40) million, primarily denominated in Brazilian real and Australian dollar, (3) and assets of \$41 million, primarily denominated in Korean won and Australian dollar, as of September 30, 2017 and December 31, 2016, respectively.

As of September 30, 2017, approximately \$(11) million, \$324 million and \$578 million of the net market value is (4) scheduled to settle in 2017, 2018 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.

## Asset Management operations

The principal sources of liquidity for our fee-based asset 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 asset 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 asset 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 asset 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 asset management operations since December 31, 2016.

#### 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, 2016.

## 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.

|   | September 30, 2017 |          |              | December 31, 2016 |          |              |
|---|--------------------|----------|--------------|-------------------|----------|--------------|
|   | 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  | \$4,614            | \$3,531  | \$ 8,145     | \$4,906           | \$2,700  | \$ 7,606     |
| Cash collateral for loaned securities   | 3,351              | 1,346    | 4,697        | 3,057             | 1,276    | 4,333        |
| Securities sold but not yet purchased   | 3                  | 0        | 3            | 2                 | 0        | 2            |
| Total(1)  | \$7,968            | \$4,877  | \$ 12,845    | \$7,965           | \$3,976  | \$ 11,941    |
| Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral | \$3,602            | \$1,701  | \$ 5,303     | \$3,583           | \$1,631  | \$ 5,214     |
| Weighted average maturity, in days(2)   | 9                  | 3        |              | 9                 | 6        |              |

The daily weighted average outstanding balance for the three and nine months ended September 30, 2017 was (1)\$8,128 million and \$8,243 million, respectively, for PFI excluding the Closed Block division, and \$5,340 million and \$4,852 million, respectively, for the Closed Block division.

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

As of September 30, 2017, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of \$111.3 billion, of which \$12.8 billion were on loan. Taking into account market conditions and outstanding loan balances as of September 30, 2017, we believe approximately \$16.8 billion of the remaining eligible assets are readily lendable, including approximately \$12.6 billion relating to PFI excluding the Closed Block division, of which \$3.1 billion relates to certain separate accounts and may only be used for financing activities related to those accounts, and the remaining \$4.2 billion relating to the Closed Block division.

## Financing Activities



As of September 30, 2017, total short-term and long-term debt of the Company on a consolidated basis was \$19.5 billion, an increase of \$337 million from December 31, 2016. 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 repurchases will depend on prevailing market conditions, our liquidity position and other factors.

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| Borrowings:                               | September 30, 2017                       |              |              | December 31, 2016       |              |              |
|---|--|--------------|--------------|-------------------------|--------------|--------------|
|   | Prudential<br>Financial<br>(in millions) | Subsidiaries | Consolidated | Prudential<br>Financial | Subsidiaries | Consolidated |
| General obligation short-term debt:       |  |              |              |                         |              |              |
| Commercial paper                          | \$50                                     | \$ 616       | \$ 666       | \$65                    | \$ 525       | \$ 590       |
| Current portion of long-term debt         | 1,192                                    | 500          | 1,692        | 470                     | 0            | 470          |
| Subtotal                                  | 1,242                                    | 1,116        | 2,358        | 535                     | 525          | 1,060        |
| General obligation long-term debt:        |  |              |              |                         |              |              |
| Senior debt                               | 8,739                                    | 173          | 8,912        | 9,572                   | 727          | 10,299       |
| Junior subordinated debt                  | 6,564                                    | 57           | 6,621        | 5,817                   | 0            | 5,817        |
| Surplus notes(1)                          | 0  | 840          | 840          | 0                       | 1,339        | 1,339        |
| Subtotal                                  | 15,303                                   | 1,070        | 16,373       | 15,389                  | 2,066        | 17,455       |
| Total general obligations                 | 16,545                                   | 2,186        | 18,731       | 15,924                  | 2,591        | 18,515       |
| Limited and non-recourse borrowings(2):   |  |              |              |                         |              |              |
| Current portion of long term debt         | 0  | 0            | 0            | 0                       | 73           | 73           |
| Long-term debt                            | 0  | 780          | 780          | 0                       | 586          | 586          |
| Total limited and non-recourse borrowings | 0  | 780          | 780          | 0                       | 659          | 659          |
| Total borrowings                          | \$ 16,545                                | \$ 2,966     | \$ 19,511    | \$ 15,924               | \$ 3,250     | \$ 19,174    |

(1) Amounts are net of assets under set-off arrangements of \$6,937 million and \$5,859 million as of September 30, 2017, and December 31, 2016, respectively.

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

As of September 30, 2017, and December 31, 2016, 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, 2016.

Prudential Financial's borrowings increased \$621 million from December 31, 2016, primarily driven by the issuance of \$750 million of junior subordinated debt, partially offset by the maturity of \$108 million of senior debt, a \$15 million decrease in commercial paper outstanding, and \$7 million of retail notes repayments. Borrowings of our subsidiaries decreased \$284 million from December 31, 2016, primarily driven by the redemption of \$500 million of surplus notes, \$73 million of mortgage debt maturities and \$41 million of mortgage debt prepayments, partially offset by the issuance of \$216 million of mortgage debt, a \$91 million increase in commercial paper outstanding, and a \$19 million increase from foreign exchange fluctuations.

#### Term and Universal Life Reserve Financing

Regulation XXX and Guideline AXXX require domestic life insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life policies with similar guarantees. Many market participants believe that these levels of reserves are excessive relative to the levels reasonably required to maintain solvency for moderately adverse experience. The difference between the statutory reserve and the amount necessary to maintain solvency for moderately adverse experience is considered to be the non-economic portion of the statutory reserve.

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 to policyholder obligations, and the payment of principal on the surplus notes may only be made with prior insurance regulatory approval.

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To date, we have entered into agreements with external counterparties providing for the issuance of up to an aggregate of \$10,150 million 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 September 30, 2017, an aggregate of \$8,837 million of surplus notes was outstanding under our Credit-Linked Note Structures, reflecting an increase of \$1,078 million since December 31, 2016. 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, 2016.

The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of September 30, 2017.

| Credit-Linked Note Structures:      | Surplus Notes        |                | Outstanding              |     | Facility Size |
|-------------------------------------|----------------------|----------------|--------------------------|-----|---------------|
|                                     | Original Issue Dates | Maturity Dates | as of September 30, 2017 |     |               |
|                                     | (\$ in millions)     |                |                          |     |               |
| XXX                                 | 2011-2014            | 2021-2024      | \$ 1,750                 | (1) | \$2,000       |
| AXXX                                | 2013-2014            | 2033           | 2,877                    |     | 3,500         |
| XXX                                 | 2014-2016            | 2027-2034      | 1,900                    | (2) | 1,900         |
| XXX                                 | 2014                 | 2024           | 1,750                    |     | 1,750         |
| AXXX                                | 2017                 | 2037           | 560                      |     | 1,000         |
| Total Credit-Linked Note Structures |                      |                | \$ 8,837                 |     | \$ 10,150     |

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

(2) The \$1.9 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 September 30, 2017, we also had outstanding an aggregate of \$2.8 billion of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$0.9 billion relates to Regulation XXX reserves and approximately \$1.9 billion relates to Guideline AXXX reserves, all of which was issued directly by or guaranteed by Prudential Financial. Under certain of the financing arrangements pursuant to which this debt was issued, Prudential Financial has agreed to make capital contributions to the applicable captive reinsurance subsidiary to reimburse it for investment losses or to maintain its capital above prescribed minimum levels. In addition, as of September 30, 2017, 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 additional asset requirement as of December 31, 2015, was approximately \$400 million and the requirement as of December 31, 2016 was an additional \$600 million, for a total additional asset requirement of approximately \$1.0 billion. We funded the \$1.0 billion requirement 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 2017.

In June 2016, the NAIC adopted a recommendation that will activate a principles-based reserving approach for life insurance products. At the Company's discretion, it may be applied to new individual life insurance business beginning as early as January 1, 2017, and must be applied for all new individual life insurance business issued January 1, 2020 and later. During 2017, we introduced updated versions of our guaranteed universal life products and adopted principles-based reserving for these products. The updated products are expected to support the principles-based statutory reserve level without the need for captive reserve financing or additional assets under AG 48. The Company is continuing to assess the impact of this new reserving approach 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, 2016.

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In May 2017, Fitch revised the company outlook for Prudential Insurance and certain other affiliated insurance companies from Negative to Stable. 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. In November 2017, Fitch reaffirmed the Company's ratings, and the outlook for Prudential Insurance and certain other affiliated insurance companies remains Stable.

### 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 15 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—Asset Management operations."

#### 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 September 30, 2017, 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 September 30, 2017, there have been no material changes in our economic exposure to market risk from December 31, 2016, a description of which may be found in our Annual Report on Form 10-K, for the year ended December 31, 2016, 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, 2016, 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 September 30, 2017. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2017, 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 September 30, 2017, 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 15 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, 2016. 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” above 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 September 30, 2017, 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) |
|--|-------------------------------------|------------------------------|---|---|
| July 1, 2017 through July 31, 2017           | 751,183                             | \$ 111.67                    | 745,000   |   |
| August 1, 2017 through August 31, 2017       | 1,194,297                           | \$ 105.62                    | 1,184,849   |   |
| September 1, 2017 through September 30, 2017 | 1,012,606                           | \$ 103.28                    | 1,008,587   |   |
| Total  | 2,958,086                           | \$ 106.35                    | 2,938,436   | \$312,500,000   |

(1) Includes shares of Common Stock withheld from participants for income tax withholding purposes whose shares of 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 that was adopted by the Company’s Board of Directors in March 2003 (as subsequently amended and restated).

(2) In December 2016, Prudential Financial’s Board of Directors authorized the Company to repurchase at management’s discretion up to \$1.25 billion of its outstanding Common Stock during the period from January 1, 2017 through December 31, 2017.



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ITEM 6. EXHIBITS

See accompanying Exhibit Index.

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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                           | Pruco Re             | Pruco Reinsurance, Ltd.                             |
| PFI            | Prudential Financial, Inc. and its subsidiaries                           | Prudential           | Prudential Financial, Inc. and its subsidiaries     |
| PGFL           | Prudential Gibraltar Financial Life Insurance Co., Ltd.                   | Prudential Financial | Prudential Financial, Inc.                          |
| PGIM           | The Global Investment Management Businesses of Prudential Financial, Inc. | Prudential Funding   | Prudential Funding, LLC                             |
| PHJ            | Prudential Holdings of Japan, Inc.  | Prudential Insurance | The Prudential Insurance Company of America         |
| PLIC           | Prudential Legacy Insurance Company of New Jersey                         | Prudential of Japan  | The Prudential Life Insurance Company, Ltd.         |
| PLNJ           | Pruco Life Insurance Company of New Jersey                                | Registrant           | Prudential Financial, Inc.                          |
| POB            | Prudential of Brazil  |                      |   |

## Defined Terms

|                              |  |                               |   |
|------------------------------|--|-------------------------------|---|
| AFP Habitat                  | Administradora de Fondos de Pensiones Habitat S.A.   | FRB                           | Board of Governors of the Federal Reserve System  |
| A.M. Best                    | A.M. Best Company  | Guideline AXXX                | The Application of the Valuation of Life Insurance Policies Model Regulation  |
| 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 |
| Council                      | Financial Stability Oversight Council  | Pension Benefits              | Funded and non-funded non-contributory defined benefit pension plans which cover substantially all of the Company's employees             |
| Designated Financial Company | A non-bank financial company that is subject to stricter standards and supervision   | Regulation XXX                | Valuation of Life Insurance Policies Model Regulation   |
| Dodd-Frank                   | Dodd-Frank Wall Street Reform and Consumer Protection Act  | S&P                           | Standard & Poor's Rating Services   |

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|              |   |                |  |
|--------------|---|----------------|--|
| Exchange Act | The Securities Exchange Act of 1934       | Union Hamilton | Union Hamilton Reinsurance, Ltd.   |
| Fitch        | Fitch Ratings Inc.                        | U.S. GAAP      | Accounting principles generally<br>accepted in the United States of<br>America |
| Framework    | Prudential's capital protection framework |                |  |

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## Acronyms

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

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EXHIBIT INDEX

12.1 Statement of Ratio of Earnings to Fixed Charges.

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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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: November 3, 2017