PRUDENTIAL FINANCIAL INC
Form 10-Q
May 04, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.
(Exact Name of Registrant as Specified in its Charter)

New Jersey	22-3703799
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer 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 x 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 x No ¨

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

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

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 x

As of April 30, 2018, 420 million shares of the registrant’s Common Stock (par value $0.01) were outstanding.

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Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “includes,” “plans,” “assumes,” “estimates,” “projects,” “intends,” “should,” “will,” “shall” or variations of such generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) losses on investments or financial contracts due to deterioration in credit quality or value, or counterparty default; (2) losses on insurance products due to mortality experience, morbidity experience or policyholder behavior experience that differs significantly from our expectations when we price our products; (3) changes in interest rates, equity prices and foreign currency exchange rates that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (4) guarantees within certain of our products, in particular our variable annuities, which are market sensitive and may decrease our earnings or increase the volatility of our results of operations or financial position; (5) liquidity needs resulting from (a) derivative collateral market exposure, (b) asset/liability mismatches, (c) the lack of available funding in the financial markets or (d) unexpected cash demands due to severe mortality calamity or lapse events; (6) financial or customer losses, or regulatory and legal actions, due to inadequate or failed processes or systems, human error or misconduct, and external events, such as (a) disruption of our systems and data, (b) an information security breach, (c) a failure to protect the privacy of sensitive data or (d) reliance on third-parties, including to distribute our products; (7) changes in the regulatory landscape, including related to (a) regulation under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (b) changes in tax laws, (c) the U.S. Department of Labor’s fiduciary rules and other fiduciary rule developments, (d) U.S. state insurance laws and developments regarding group-wide supervision, capital and reserves, (e) insurer capital standards outside the U.S. and (f) privacy and cybersecurity regulation; (8) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (9) ratings downgrades; (10) market conditions that may adversely affect the sales or persistency of our products; (11) competition; and (12) reputational damage. Prudential Financial, Inc. does not undertake to update any particular forward-looking statement included in this document. See “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2017 for discussion of certain risks relating to our businesses and investment in our securities.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements
PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Financial Position
March 31, 2018 and December 31, 2017 (in millions, except share amounts)

	March 31, 2018	December 31, 2017
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2018-$319,180; 2017-$312,385)(1)	$347,630	$ 346,780
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2018-$2,511; 2017-$2,430)(1)	2,120	2,049
Fixed maturities, trading, at fair value (amortized cost: 2018-$2,852; 2017-$3,509)(1)(2)	2,885	3,507
Assets supporting experience-rated contractholder liabilities, at fair value(1)(2)	21,637	22,097
Equity securities, at fair value (cost: 2018-$5,382; 2017-$5,154)(1)(2)	7,289	7,329
Commercial mortgage and other loans (includes $298 and $593 measured at fair value under the fair value option at March 31, 2018 and December 31, 2017, respectively)(1)	58,098	56,045
Policy loans	12,036	11,891
Other invested assets (includes $5,647 and $3,159 measured at fair value at March 31, 2018 and December 31, 2017, respectively)(1)(2)	14,044	13,373
Short-term investments(2)	5,752	6,800
Total investments	471,491	469,871
Cash and cash equivalents(1)	15,676	14,490
Accrued investment income(1)	3,169	3,325
Deferred policy acquisition costs	19,649	18,992
Value of business acquired	1,995	1,591
Other assets(1)	17,112	17,250
Separate account assets	300,585	306,617
TOTAL ASSETS	$829,677	$ 832,136
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$261,144	$ 257,317
Policyholders’ account balances	149,917	148,189
Policyholders’ dividends	5,446	6,411
Securities sold under agreements to repurchase	8,633	8,400
Cash collateral for loaned securities	4,312	4,354
Income taxes	9,296	9,648
Short-term debt	1,383	1,380
Long-term debt	18,143	17,172
Other liabilities(1)	17,689	16,619
Notes issued by consolidated variable interest entities (includes $612 and $1,196 measured at fair value under the fair value option at March 31, 2018 and December 31, 2017, respectively)(1)	954	1,518
Separate account liabilities	300,585	306,617
Total liabilities	777,502	777,625
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 14)		
EQUITY		
Preferred Stock ($.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 March 31, 2018 and December 31, 2017)	6	6
Additional paid-in capital	24,722	24,769
Common Stock held in treasury, at cost (239,088,607 and 230,537,166 shares at March 31, 2018 and December 31, 2017, respectively)	(16,557)	(16,284)
Accumulated other comprehensive income (loss)	14,761	17,074
Retained earnings	28,898	28,671
Total Prudential Financial, Inc. equity	51,830	54,236
Noncontrolling interests	345	275
Total equity	52,175	54,511
TOTAL LIABILITIES AND EQUITY	$829,677	$ 832,136

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

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

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See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Operations
Three Months Ended March 31, 2018 and 2017 (in millions, except per share amounts)

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

See Notes to Unaudited Interim Consolidated Financial Statements

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Equity
Three Months Ended March 31, 2018 and 2017 (in millions)

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

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2016	$6	$24,606	$21,946	$(15,316)	$ 14,621	$ 45,863	$ 225	$46,088
Cumulative effect of adoption of accounting changes		5	(5)			0		0
Elimination of Gibraltar Life reporting lag			167			167		167
Common Stock acquired				(312)		(312)		(312)
Contributions from noncontrolling interests							4	4

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

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Cash Flows
Three Months Ended March 31, 2018 and 2017 (in millions)

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

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

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

Basis of Presentation

The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Intercompany balances and transactions have been eliminated. The Unaudited Interim Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and variable interest entities ("VIEs") in which the Company is considered the primary beneficiary. See Note 4 for more information on the Company's consolidated variable interest entities.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Elimination of Gibraltar Life Reporting Lag

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

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

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Use of Estimates

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

The most significant estimates include those used in determining deferred policy acquisition costs ("DAC") and related amortization; value of business acquired ("VOBA") and its amortization; amortization of deferred sales inducements ("DSI"); measurement of goodwill and any related impairment; valuation of investments including derivatives and the recognition of other-than-temporary impairments ("OTTI"); future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; and accruals for contingent liabilities, including estimates for losses in connection with unresolved legal and regulatory matters.

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASU") to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASU. ASU listed below include those that have been adopted during the current fiscal year and/or those that have been issued but not yet adopted as of the date of this filing. ASU not listed below were assessed and determined to be either not applicable or not material.

Adoption of ASU 2016-01

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

* — New line item effective January 1, 2018.
Strikethrough — Eliminated line item effective January 1, 2018.

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(1) Retitled "Trading account assets supporting insurance liabilities, at fair value" to "Assets supporting experience-rated contractholder liabilities, at fair value" as equity securities are included in this line item, and they can no longer be described as trading.
(2) Retitled "Equity securities, available-for-sale, at fair value" to "Equity securities, at fair value" as equity securities can no longer be described as available-for-sale.
(3) Eliminated the line item "Other trading account assets, at fair value" and reclassified each component to another line item.
(4) Retitled "Other long-term investments" to "Other invested assets."

(2) Cumulative-effect Adjustment Upon Adoption

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

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

	Increase / (Decrease)
Other invested assets	$ 229
Total assets	$ 229

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

(3) Changes to Accounting Policies

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

ASSETS

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

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

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

Other invested assets is the new title of the financial statement line item formerly titled "Other long-term investments." Investments previously reported in "Other long-term investments" were reclassified to "Other invested assets." The retitled financial statement line item consists of the Company's non-coupon investments in Limited Partnerships and Limited Liability Companies ("LPs/LLCs") (other than operating joint ventures), wholly-owned investment real estate, derivative assets and other investments. LPs/LLCs interests are accounted for using either the equity method of accounting, or at fair value with changes in fair value reported in "Other income." Prior to the adoption of the standard, the Company applied the cost method of accounting for certain LPs/LLCs interests when its partnership interest was considered minor. The standard effectively eliminated the cost method of accounting for these equity investments. The Company's income from investments in LPs/LLCs accounted for using the equity method, other than the Company's investments in operating joint ventures, is included in "Net investment income." The carrying value of these investments is written down, or impaired, to fair value when a decline in value is considered to be other-than-temporary. In applying the equity method (including assessment for OTTI), the Company uses financial information provided by the investee, generally on a one to three month lag. For the investments reported at fair value with changes in fair value reported in current earnings, the associated realized and unrealized gains and losses are reported in “Other income.” The Company consolidates LPs/LLCs in certain other instances where it is deemed to exercise control, or is considered the primary beneficiary of a variable interest entity. See Note 4 for additional information about VIEs.

REVENUES AND BENEFITS AND EXPENSES

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Adoption of ASU 2014-09

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-02, Leases (Topic 842)	This ASU ensures that assets and liabilities from all outstanding lease contracts are recognized on the balance sheet (with limited exception). The ASU substantially changes a Lessee's accounting for leases and requires the recording on balance sheet of a "right-of-use" asset and liability to make lease payments for most leases. A Lessee will continue to recognize expense in its income statement in a manner similar to the requirements under the current lease accounting standard. For Lessors, the standard modifies classification criteria and accounting for sales-type and direct financing leases and requires a Lessor to derecognize the carrying value of the leased asset that is considered to have been transferred to a Lessee and record a lease receivable and residual asset ("receivable and residual" approach). The standard also eliminates the real estate specific provisions of the current standard (i.e., sale-leaseback).	January 1, 2019 using the modified retrospective method (with early adoption permitted) which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption.	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2016-13, Financial Instruments-Credit Losses (Topic326): Measurement of Credit Losses on Financial Instruments	This ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held to maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard also modifies the current OTTI standard for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces	January 1, 2020 using the modified retrospective method which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. However, prospective application is required for purchased credit deteriorated assets previously accounted for under ASU 310-30 and for debt securities for which an OTTI was recognized prior to the date of adoption. Early adoption is permitted beginning January 1, 2019.	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

	the existing standard for purchased credit deteriorated loans and debt securities.		
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This ASU simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test in current GAAP, which measures a goodwill impairment by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of the goodwill. Under the ASU, a goodwill impairment should be recorded for the amount by which the carrying amount of a reporting unit exceeds its fair value (capped by the total amount of goodwill allocated to the reporting unit).	January 1, 2020 using the prospective method (with early adoption permitted).	The Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2017-08, Receivables -Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities	This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date.	January 1, 2019 using the modified retrospective method (with early adoption permitted) which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption.	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	This ASU makes targeted changes to the existing hedge accounting model to better portray the economics of an entity's risk management activities and to simplify the use of hedge accounting.	January 1, 2019 using the modified retrospective method (with early adoption permitted) which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption.	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

3. INVESTMENTS

Fixed Maturity Securities

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

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

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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(1) Excludes notes with amortized cost of $2,846 million (fair value, $2,846 million), which have been offset with the associated payables under a netting agreement.

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

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

(4) Represents the amount of unrealized losses remaining in “Accumulated other comprehensive income (loss)” (“AOCI”), from the impairment measurement date. Amount excludes $440 million of net unrealized gains on impaired available-for-sale securities and $2 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(5) Excludes notes with amortized cost of $4,753 million (fair value, $4,812 million), which have been offset with the associated payables under a netting agreement.

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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(1) Excludes notes with amortized cost of $2,660 million (fair value, $2,660 million), which have been offset with the associated payables under a netting agreement.
(2) Includes credit-tranched securities collateralized by loan obligations, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
(3) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(4) Represents the amount of unrealized losses remaining in AOCI, from the impairment measurement date. Amount excludes $553 million of net unrealized gains on impaired available-for-sale securities and $2 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.
(5) Excludes notes with amortized cost of $4,627 million (fair value, $4,913 million), which have been offset with the associated payables under a netting agreement.

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

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

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

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(1) Includes $13 million of fair value and less than $1 million of gross unrealized losses, which are not reflected in AOCI, on securities classified as held-to-maturity, as of March 31, 2018.

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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(1) Includes $12 million of fair value and less than $1 million of gross unrealized losses, which are not reflected in AOCI, on securities classified as held-to-maturity, as of December 31, 2017.

As of March 31, 2018 and December 31, 2017, the gross unrealized losses on fixed maturity securities were composed of $3,182 million and $1,470 million, respectively, related to “1” highest quality or “2” high quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and $488 million and $306 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of March 31, 2018, the $1,977 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in U.S. government bonds, foreign government bonds and in the Company’s corporate securities within the consumer non-cyclical, energy and utility sectors. As of December 31, 2017, the $1,433 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in U.S. government bonds, foreign government bonds and in the Company’s corporate securities within the energy, utility and consumer non-cyclical sectors. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, the Company concluded that an adjustment to earnings for OTTI for these fixed maturity securities was not warranted at either March 31, 2018 or December 31, 2017. These conclusions were based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to general credit spread widening, increases in interest rates and foreign currency exchange rate movements. As of March 31, 2018, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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(1) Excludes available-for-sale notes with amortized cost of $2,846 million (fair value, $2,846 million) and held-to-maturity notes with amortized cost of $4,753 million (fair value, $4,812 million), which have been offset with the associated payables under a netting agreement.

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

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

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

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

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

(3) Includes $0 million and $1 million of non-cash related proceeds due to the timing of trade settlements for the three months ended March 31, 2018 and 2017, respectively.

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

Assets Supporting Experience-Rated Contractholder Liabilities

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

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

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(1) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(2) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

The net change in unrealized gains (losses) from assets supporting experience-rated contractholder liabilities still held at period end, recorded within “Other income,” was $(398) million and $46 million during the three months ended March 31, 2018 and 2017, respectively.

Equity Securities

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

Concentrations of Financial Instruments

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

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

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

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

Commercial Mortgage and Other Loans

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

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

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(1) Includes loans held for sale which are carried at fair value and are collateralized primarily by apartment complexes. As of March 31, 2018 and December 31, 2017, the net carrying value of these loans was $298 million and $593 million, respectively.

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

	March 31, 2018					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for credit losses:						
Balance, beginning of year	$97	$ 3	$ 1	$ 0	$ 5	$106
Addition to (release of) allowance for losses	2	0	0	0	0	2
Charge-offs, net of recoveries	0	0	0	0	0	0
Change in foreign exchange	0	0	0	0	0	0
Total ending balance	$99	$ 3	$ 1	$ 0	$ 5	$108

	December 31, 2017					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for credit losses:						
Balance, beginning of year	$96	$ 2	$ 2	$ 0	$ 6	$106
Addition to (release of) allowance for losses	2	1	(1)	0	(1)	1
Charge-offs, net of recoveries	(1)	0	0	0	0	(1)
Change in foreign exchange	0	0	0	0	0	0
Total ending balance	$97	$ 3	$ 1	$ 0	$ 5	$106

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

	March 31, 2018					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for credit losses:						
Individually evaluated for impairment	$7	$ 0	$ 0	$ 0	$ 0	$7
Collectively evaluated for impairment	92	3	1	0	5	101
Total ending balance(1)	$99	$ 3	$ 1	$ 0	$ 5	$108
Recorded investment(2):						
Individually evaluated for impairment	$71	$ 35	$ 0	$ 0	$ 2	$108
Collectively evaluated for impairment	54,022	3,188	196	4	688	58,098
Total ending balance(1)	$54,093	$ 3,223	$ 196	$ 4	$ 690	$58,206

(1) As of March 31, 2018, there were no loans acquired with deteriorated credit quality.
(2) Recorded investment reflects the carrying value gross of related allowance.

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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(1) As of December 31, 2017, there were no loans acquired with deteriorated credit quality.
(2) Recorded investment reflects the carrying value gross of related allowance.

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

Commercial mortgage loans

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

Agricultural property loans

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Total commercial mortgage and agricultural property loans

	March 31, 2018			
	Debt Service Coverage Ratio			
	>1.2X	1.0X to <1.2X	< 1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	$33,189	$ 857	$267	$34,313
60%-69.99%	14,766	621	156	15,543
70%-79.99%	6,524	702	10	7,236
80% or greater	84	116	24	224
Total commercial mortgage and agricultural property loans	$54,563	$ 2,296	$457	$57,316

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

Commercial mortgage loans

	December 31, 2017			
	Debt Service Coverage Ratio			
	>1.2X	1.0X to <1.2X	< 1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	$30,082	$ 639	$251	$30,972
60%-69.99%	13,658	530	121	14,309
70%-79.99%	5,994	514	29	6,537
80% or greater	93	54	119	266
Total commercial mortgage loans	$49,827	$ 1,737	$520	$52,084

Agricultural property loans

	December 31, 2017			
	Debt Service Coverage Ratio			
	>1.2X	1.0X to <1.2X	< 1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	$2,988	$ 170	$ 5	$3,163
60%-69.99%	40	0	0	40
70%-79.99%	0	0	0	0
80% or greater	0	0	0	0
Total agricultural property loans	$3,028	$ 170	$ 5	$3,203

Total commercial mortgage and agricultural property loans

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

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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(1) As of March 31, 2018, there were no loans in this category accruing interest.
(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

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(1) As of December 31, 2017, there were no loans in this category accruing interest.
(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

For the three months ended March 31, 2018 and 2017, there were no commercial mortgage and other loans acquired, other than those through direct origination. For the three months ended March 31, 2018 and 2017, there were no commercial mortgage and other loans sold, other than those classified as held-for-sale.

The Company’s commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. During the three months ended March 31, 2018, there were $24 million of new troubled debt restructurings related to commercial mortgage and other loans with payment defaults on loans that were modified as a troubled debt restructuring within the twelve months preceding. During the three months ended March 31, 2017, there were no new troubled debt restructurings related to commercial mortgage and other loans with payment defaults on loans that were modified as a troubled debt restructuring within the twelve months preceding. As of both March 31, 2018 and December 31, 2017, the Company had no significant commitments to provide additional funds to borrowers that had been involved in a troubled debt restructuring. For additional information relating to the accounting for troubled debt restructurings, see Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Other Invested Assets

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

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

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(1) As of December 31, 2017, $1,572 million was accounted for using the cost method.
(2) As of March 31, 2018 and December 31, 2017, real estate held through direct ownership had mortgage debt of $802 million and $799 million, respectively.
(3) Primarily includes strategic investments made by investment management operations, leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding the Company's holdings in the Federal Home Loan Banks of New York and Boston, see Note 14 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.
(4) Prior period amounts have been reclassified to conform to current period presentation. For additional information, see Note 2.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Net Investment Income

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

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

(1) Includes income on credit-linked notes which are reported on the same financial statement line item as related surplus notes, as conditions are met for right to offset.
(2) Prior period amounts have been reclassified to conform to current period presentation.

Realized Investment Gains (Losses), Net

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

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

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

(2) Effective January 1, 2018, realized gains (losses) on equity securities are recorded within “Other income.”
(3) Includes the hedged items offset in qualifying fair value hedge accounting relationships.

Net Unrealized Gains (Losses) on Investments within AOCI

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

(1) Effective January 1, 2018, unrealized gains (losses) on equity securities are recorded within "Other income."
(2) For more information on cash flow hedges, see Note 5.
(3) As of March 31, 2018, there were no net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in "Other assets."

Repurchase Agreements and Securities Lending

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

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

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

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

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

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

4. VARIABLE INTEREST ENTITIES

In the normal course of its activities, the Company enters into relationships with various special-purpose entities and other entities that are deemed to be variable interest entities (“VIEs”). For additional information, see Note 5 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Consolidated Variable Interest Entities

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

	Consolidated VIEs for which the Company is the Investment Manager(1)(2)		Other Consolidated VIEs(1)	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
	(in millions)			
Fixed maturities, available-for-sale	$79	$ 69	$ 291	$ 275

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

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

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

(3) Recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company. As of March 31, 2018 and December 31, 2017, the maturities of these obligations were greater than five years.

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager. The Company's maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its investment in the VIEs, which was $1,177 million and $1,013 million at March 31, 2018 and December 31, 2017, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Fixed maturities, trading," "Equity securities" and "Other invested assets." There are no liabilities associated with these unconsolidated VIEs on the Company's Unaudited Interim Consolidated Statements of Financial Position.

In the normal course of its activities, the Company will invest in LPs/LLCs, which include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company classifies these investments as "Other invested assets" and its maximum exposure to loss associated with these entities was $9,286 million and $8,720 million as of March 31, 2018 and December 31, 2017, respectively.

In addition, in the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the investment manager. These structured investments typically invest in fixed income investments and are managed by third-parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company's maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. See Note 3 for details regarding the carrying amounts and classification of these assets. The Company has not provided material financial or other support that was not contractually required to these structures. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not control these entities.

5. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

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

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

For detailed information on these contracts and the related strategies, see Note 21 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Primary Risks Managed by Derivatives

The table below provides a summary of the gross notional amount and fair value of derivatives contracts by the primary underlying risk, excluding embedded derivatives and associated reinsurance recoverables. Many derivative instruments contain multiple underlying risks. The fair value amounts below represent the gross fair value of derivative contracts prior to taking into account the netting effects of master netting agreements, cash collateral and non-performance risk ("NPR"). This netting impact results in total derivative assets of $1,219 million and $1,205 million as of March 31, 2018 and December 31, 2017, respectively, and total derivative liabilities of $1,249 million and $643 million as of March 31, 2018 and December 31, 2017, respectively, reflected in the Unaudited Interim Consolidated Statements of Financial Position.

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

Most of the Company’s derivatives do not qualify for hedge accounting for various reasons. For example: (i) derivatives that economically hedge embedded derivatives do not qualify for hedge accounting because changes in the fair value of the embedded derivatives are already recorded in net income; (ii) derivatives that are utilized as macro hedges of the Company’s exposure to various risks typically do not qualify for hedge accounting because they do not meet the criteria required under portfolio hedge accounting rules; and (iii) synthetic GIC, which are product standalone derivatives, do not qualify as hedging instruments under hedge accounting rules.

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Offsetting Assets and Liabilities

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

	March 31, 2018				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
	(in millions)				
Offsetting of Financial Assets:					
Derivatives(1)	$9,537	$ (8,382)	$ 1,155	$ (756)	$ 399
Securities purchased under agreement to resell	1,388	0	1,388	(1,388)	0
Total assets	$10,925	$ (8,382)	$ 2,543	$ (2,144)	$ 399
Offsetting of Financial Liabilities:					
Derivatives(1)	$6,913	$ (5,673)	$ 1,240	$ (1,240)	$ 0
Securities sold under agreement to repurchase	8,633	0	8,633	(8,633)	0
Total liabilities	$15,546	$ (5,673)	$ 9,873	$ (9,873)	$ 0

	December 31, 2017				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
	(in millions)				
Offsetting of Financial Assets:					
Derivatives(1)	$10,710	$ (9,600)	$ 1,110	$ (625)	$ 485
Securities purchased under agreement to resell	240	0	240	(240)	0
Total assets	$10,950	$ (9,600)	$ 1,350	$ (865)	$ 485
Offsetting of Financial Liabilities:					
Derivatives(1)	$5,948	$ (5,312)	$ 636	$ (588)	$ 48
Securities sold under agreement to repurchase	8,400	0	8,400	(8,400)	0
Total liabilities	$14,348	$ (5,312)	$ 9,036	$ (8,988)	$ 48

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

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above, see "—Counterparty Credit Risk" below. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company's accounting policy for securities repurchase and resale agreements, see Note 2 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

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Cash Flow, Fair Value and Net Investment Hedges

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

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

	Three Months Ended March 31, 2018					
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders' Account Balances	AOCI(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$17	$ (3)	$ 0	$ 0	$ (83)	$ 0
Currency	2	0	0	0	0	0
Total fair value hedges	19	(3)	0	0	(83)	0
Cash flow hedges						
Interest Rate	0	0	0	0	0	7
Currency	0	0	0	0	0	(8)
Currency/Interest Rate	0	47	(91)	0	0	(582)
Total cash flow hedges	0	47	(91)	0	0	(583)
Net investment hedges						
Currency	(2)	0	0	0	0	(2)
Currency/Interest Rate	0	0	0	0	0	0
Total net investment hedges	(2)	0	0	0	0	(2)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(1,516)	0	0	0	0	0
Currency	412	0	1	0	0	0
Currency/Interest Rate	(555)	0	(1)	0	0	0
Credit	(5)	0	0	0	0	0
Equity	10	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	1,979	0	0	0	0	0
Total non-qualifying hedges	325	0	0	0	0	0
Total	$342	$ 44	$ (91)	$ 0	$ (83)	$ (585)

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	Three Months Ended March 31, 2017					
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders' Account Balances	AOCI(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$8	$ (6)	$ 0	$ 0	$ 0	$ 0
Currency	2	0	0	0	0	0
Total fair value hedges	10	(6)	0	0	0	0
Cash flow hedges						
Interest Rate	0	0	0	(1)	0	3
Currency/Interest Rate	0	44	(39)	0	0	(201)
Total cash flow hedges	0	44	(39)	(1)	0	(198)
Net investment hedges						
Currency	0	0	0	0	0	(3)
Currency/Interest Rate	0	0	0	0	0	0
Total net investment hedges	0	0	0	0	0	(3)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(147)	0	0	0	0	0
Currency	38	0	(1)	0	0	0
Currency/Interest Rate	(87)	0	0	0	0	0
Credit	10	0	0	0	0	0
Equity	(704)	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	876	0	0	0	0	0
Total non-qualifying hedges	(14)	0	(1)	0	0	0
Total	$(4)	$ 38	$ (40)	$ (1)	$ 0	$ (201)

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(1) Amounts deferred in AOCI.

For the three months ended March 31, 2018, the ineffective portion of derivatives accounted for using hedge accounting was $13 million and for the three months ended March 31, 2017, the ineffective portion of derivatives accounted for using hedge accounting were de minimis to the Company's results of operations. Also, there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

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

	(in millions)
Balance, December 31, 2017	$ (39)

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

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

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

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment account within AOCI were $524 million and $526 million as of March 31, 2018 and December 31, 2017, respectively.

Credit Derivatives

Credit derivatives, where the Company has written credit protection on a single name reference, had outstanding notional amounts of $110 million and $114 million as of March 31, 2018 and December 31, 2017, respectively. These credit derivatives are reported at fair value as an asset of $2 million as of both March 31, 2018 and December 31, 2017. As of March 31, 2018, the notional amount of these credit derivatives had the following NAIC ratings: $37 million in NAIC 1; $61 million in NAIC 2; $5 million in NAIC 3; $1 million in NAIC 4; $1 million in NAIC 5; and $5 million in NAIC 6. The Company has also written credit protection on certain index references with notional amounts of $1,022 million as of both March 31, 2018 and December 31, 2017. These credit derivatives are reported at fair value as an asset of $9 million and $18 million as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, the notional amount of these credit derivatives had the following NAIC ratings: $52 million in NAIC 1; and $970 million in NAIC 3. NAIC designations are based on the lowest rated single name reference included in the index.

The Company's maximum amount at risk under these credit derivatives equals the aforementioned notional amounts and assumes the value of the underlying referenced securities become worthless. These single name credit derivatives have maturities of less than 3 years, while the credit protection on the index references have maturities of less than 29 years. This excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance as further disclosed below.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. As of March 31, 2018 and December 31, 2017, the Company had $145 million and $178 million of outstanding notional amounts reported at fair value as a liability of $3 million and $5 million, respectively.

Counterparty Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions with a positive fair value. The Company manages credit risk by: (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreements, as applicable; (ii) trading through a central clearing and over-the-counter ("OTC"); (iii) obtaining collateral, such as cash and securities, when appropriate; and (iv) setting limits on single party credit exposures which are subject to periodic management review.

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

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

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6. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

For a discussion of Company's valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see Note 20 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

(1) "Netting" amounts represent cash collateral of $2,709 million and $4,288 million as of March 31, 2018 and December 31, 2017, respectively, and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting arrangements.
(2) Excludes notes with both fair value and carrying amount of $2,846 million and $2,660 million, as of March 31, 2018 and December 31, 2017, respectively, which have been offset with the associated payables under a netting

agreement.

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

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

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

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(6) Other invested assets excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value ("NAV") per share (or its equivalent) as a practical expedient. At March 31, 2018 and December 31, 2017, the fair values of such investments were $4,297 million and $1,969 million respectively.

(7) Separate account assets included in the fair value hierarchy exclude investments in entities that calculate net asset value per share (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy include investments in real estate, hedge funds and other invested assets, for which fair value is measured at NAV per share (or its equivalent). At March 31, 2018 and December 31, 2017, the fair value of such investments was $25,519 million and $26,224 million, respectively.

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

(9) As of March 31, 2018, the net embedded derivative liability position of $6.9 billion includes $1.1 billion of embedded derivatives in an asset position and $8.0 billion of embedded derivatives in a liability position. As of December 31, 2017, the net embedded derivative liability position of $8.7 billion includes $0.9 billion of embedded derivatives in an asset position and $9.6 billion of embedded derivatives in a liability position.

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

	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Transferred from Level 1 to Level 2	$ 171	$ 46
Transferred from Level 2 to Level 1	$ 7	$ 57

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

	As of March 31, 2018						
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
	(in millions)						
Assets:							

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

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	As of December 31, 2017						
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
	(in millions)						
Assets:							
Corporate securities(2)	$1,352	Discounted cash flow	Discount rate	0.65%	-22%	7.20%	Decrease
		Market comparables	EBITDA multiples(3)	7.4X	-7.4X	7.4X	Increase
		Liquidation	Liquidation value	13.10%	-25.00%	14.68%	Increase
Separate account assets-commercial mortgage loans(4)	$821	Discounted cash flow	Spread	1.08%	-2.78%	1.20%	Decrease
Liabilities:							
Future policy benefits(5)	$8,720	Discounted cash flow	Lapse rate(6)	1%	-12%		Decrease
			Spread over LIBOR(7)	0.12%	-1.10%		Decrease
			Utilization rate(8)	52%	-97%		Increase
			Withdrawal rate	See table footnote (9) below.			
			Mortality rate(10)	0%	-14%		Decrease
			Equity volatility curve	13%	-24%		Increase

(1) Conversely, the impact of a decrease in input would have the opposite impact on fair value as that presented in the table.
(2) Includes assets classified as fixed maturities available-for-sale, assets supporting experience-rated contractholder liabilities and fixed maturities trading.
(3) Represents multiples of earnings before interest, taxes, depreciation and amortization ("EBITDA"), and are amounts used when the Company has determined that market participants would use such multiples when valuing the investments.
(4) Changes in the fair value of separate account assets are borne by customers and thus are offset by changes in separate account liabilities on the Company's Unaudited Interim Consolidated Statements of Financial Position. As a result, changes in value associated with these investments are not reflected in the Company's Unaudited Interim Consolidated Statements of Operations.
(5) Future policy benefits primarily represent general account liabilities for the living benefit features of the Company's variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
(6) Lapse rates are adjusted at the contract level based on the in-the-moneyness of the living benefit and reflect other factors, such as the applicability of any surrender charges. Lapse rates are reduced when contracts are more in-the-money. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.
(7)

The spread over the London Inter-Bank Offered Rate ("LIBOR") swap curve represents the premium added to the proxy for the risk-free rate (LIBOR) to reflect our estimates of rates that a market participant would use to value the living benefit contracts in both the accumulation and payout phases. This spread includes an estimate of NPR, which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because both funding agreements and living benefit contracts are insurance liabilities and are therefore senior to debt.

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

(9) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of March 31, 2018 and December 31, 2017, the minimum withdrawal rate assumption is 78% and the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.

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

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Interrelationships Between Unobservable Inputs—In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another or multiple inputs. For the discussion of the relationships between unobservable inputs as well as market factors that may affect the range of inputs used in the valuation of Level 3 assets and liabilities, see Note 20 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Changes in Level 3 Assets and Liabilities—The following tables describe changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods. When a determination is made to classify assets and liabilities within Level 3, the determination is based on significance of the unobservable inputs in the overall fair value measurement. Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies or the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate. For further information on valuation processes, see Note 20 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended March 31, 2017				
	Fixed Maturities Available-For-Sale				
	U.S. government	U.S. states	Foreign government	Corporate securities(2)	Structured securities(3)
	(in millions)				
Fair Value, beginning of period	$0	$ 5	$ 124	$ 2,173	$ 4,555
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	44	2
Included in other comprehensive income (loss)	0	0	0	13	0
Net investment income	0	0	0	9	3
Purchases	0	0	1	34	782
Sales	0	0	0	(141)	(10)
Issuances	0	0	0	0	0
Settlements	0	0	0	(59)	(420)
Foreign currency translation	0	0	5	9	12
Other(6)	10	0	0	(10)	(1)
Transfers into Level 3(7)	0	0	7	98	1,647
Transfers out of Level 3(7)	0	0	(1)	(59)	(659)
Fair Value, end of period	$10	$ 5	$ 136	$ 2,111	$ 5,911
Unrealized gains (losses) for assets still held(8):					
Included in earnings:					
Realized investment gains (losses), net	$0	$ 0	$ 0	$ (8)	$ 0

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

(1) Current period amounts include one additional month of activity related to the elimination of Gibraltar Life's reporting lag.
(2) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities. Prior period amounts were aggregated to conform to current period presentation.
(3) Includes asset-backed, commercial mortgage-backed and residential mortgage-backed securities. Prior period amounts were aggregated to conform to current period presentation.
(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Consolidated Statements of Financial Position.
(5) Prior period amounts have been reclassified to conform to current period presentation. See Note 2 for details.
(6) Other, for the period ended March 31, 2018, primarily represents deconsolidation of a VIE and reclassifications of certain assets between reporting categories. Other, for the period ended March 31, 2017, primarily represents consolidations of VIE and reclassifications of certain assets between reporting categories.
(7) Transfers into or out of Level 3 are generally reported at the value as of the beginning of the quarter in which the transfers occur for any such assets still held at the end of the quarter.
(8) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.

Derivative Fair Value Information

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

Changes in Level 3 derivative assets and liabilities—The following tables provide a summary of the changes in fair value of Level 3 derivative assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income, attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods.

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

(1) Represents conversion of warrants to equity shares.

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

	Three Months Ended March 31, 2018	2017
	(in millions)	
Realized investment gains (losses) net:		
Commercial mortgage loans(1)	$0	$0
Mortgage servicing rights(2)	$2	$2
Cost method investments(3)	$0	$(10)

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

(1) Commercial mortgage loans are valued based on discounted cash flows utilizing market rates or the fair value of the underlying real estate collateral.
(2) 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.
(3) Due to the adoption of ASU 2016-01 effective January 1, 2018, LPs/LLCs (formerly accounted for under the cost method) are carried at fair value at each reporting date with changes in fair value reported in “Other income”. Therefore, these assets are no longer reported in this table because they are no longer carried at fair value on a non-recurring basis.

Fair Value Option

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

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended March 31, 2018	2017
	(in millions)	
Assets:		
Other invested assets (2):		
Changes in fair value	$ 0	$ 54
Liabilities:		
Notes issued by consolidated VIEs:		
Changes in fair value	$ 3	$ 15

	Three Months Ended March 31, 2018	2017
	(in millions)	
Commercial mortgage and other loans:		
Interest income	$ 2	$ 2
Notes issued by consolidated VIEs:		
Interest expense	$ 9	$ 22

	March 31, 2018	December 31, 2017
	(in millions)	
Commercial mortgage and other loans(1):		
Fair value as of period end	$298	$ 593
Aggregate contractual principal as of period end	$292	$ 582
Other invested assets (2):		
Fair value as of period end	$0	$ 1,945
Notes issued by consolidated VIEs:		
Fair value as of period end	$612	$ 1,196
Aggregate contractual principal as of period end	$632	$ 1,233

(1) As of March 31, 2018, for loans for which the fair value option has been elected, there were no loans in non-accrual status and none of the loans were more than 90 days past due and still accruing.
(2) LPs/LLCs are reported at fair value due to adoption of ASU 2016-01, which in prior period were reported at fair value option. See Note 2 for details.

Fair Value of Financial Instruments

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. The financial instruments presented below are reported at carrying value on the Company's Unaudited Interim Consolidated Statements of Financial Position. In some cases, as described below, the carrying amount equals or approximates fair value.

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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

7. CLOSED BLOCK

On December 18, 2001, the date of demutualization, Prudential Insurance established a closed block for certain in force participating insurance policies and annuity products, along with corresponding assets used for the payment of benefits and policyholders' dividends on these products, (collectively the "Closed Block"), and ceased offering these participating products. The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. The Closed Block forms the principal component of the Closed Block division. For more information on the Closed Block, see Note 12 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of March 31, 2018 and December 31, 2017, the Company recognized a policyholder dividend obligation of $2,621 million and $1,790 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $1,812 million and $3,656 million at March 31, 2018 and December 31, 2017, respectively, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

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

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

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

Information regarding the policyholder dividend obligation is as follows:

	Three Months Ended March 31, 2018

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

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(1) See Note 2 for details.

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

8. INCOME TAXES

The Company uses a full year projected effective tax rate approach to calculate year-to-date taxes. In addition, certain items impacting total income tax expense are recorded in the periods in which they occur. The projected effective tax rate is the ratio of projected "Total income tax expense" divided by projected "Income before income taxes and equity in earnings of operating joint ventures." Taxes attributable to operating joint ventures are recorded within "Equity in earnings of operating joint ventures, net of taxes." The interim period tax expense (or benefit) is the difference between the year-to-date income tax provision and the amounts reported for the previous interim periods of the fiscal year.

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

U.S. Tax Cuts and Jobs Act of 2017 ("Tax Act of 2017"). On December 22, 2017, the Tax Act of 2017 was enacted into U.S. law. As a result, the Company recognized a $2,880 million tax benefit in "Total income tax expense (benefit)" in the Company's Consolidated Statements of Operations for the year ended December 31, 2017. In accordance with SEC Staff Accounting Bulletin 118, the Company recorded the effects of the Tax Act of 2017 as reasonable estimates due to the need for further analysis of the provisions within the Tax Act of 2017 and collection, preparation and analysis of relevant data necessary to complete the accounting. The Company has not fully completed its accounting for the tax effects of the Tax Act of 2017. As the Company completes the collection, preparation and analysis of data relevant to the Tax Act of 2017, and interprets any additional guidance issued by the Internal Revenue Service (“IRS”), U.S. Department of the Treasury, or other standard-setting organizations, the Company may make adjustments to these provisional amounts. These adjustments may materially impact the Company’s provision for income taxes in the period in which the adjustments are made. During the first quarter of 2018, the Company recognized additional refinements of our provisional estimates.

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

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

9. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

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

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

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(1) Includes $32 million that has recourse only to real estate investment property at March 31, 2018.
(2) Includes Prudential Financial debt of $855 million and $880 million at March 31, 2018 and December 31, 2017, respectively.
(3) Excludes the current portion of long-term debt.

Prudential Financial and certain subsidiaries have access to other sources of liquidity, including: membership in the Federal Home Loan Banks, commercial paper programs and a contingent financing facility in the form of a put option agreement. The Company also maintains syndicated, unsecured committed credit facilities as an alternative source of liquidity. At March 31, 2018, no amounts were drawn on the credit facilities. For additional information on these alternative sources of liquidity, see Note 14 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Long-term Debt

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

(1) The surplus notes have corresponding assets where rights to set-off exist, thereby reducing the amount of surplus notes included in long-term debt.
(2) Includes $109 million and $107 million of debt denominated in foreign currency at March 31, 2018 and December 31, 2017, respectively.
(3) Includes $222 million and $245 million of debt denominated in foreign currency at March 31, 2018 and December 31, 2017, respectively.
(4) Includes Prudential Financial debt of $6,568 million and subsidiary debt of $59 million denominated in foreign currency at March 31, 2018.
(5) Includes Prudential Financial debt of $16,301 million and $15,304 million at March 31, 2018 and December 31, 2017, respectively.

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

Surplus Notes

During the first quarter of 2018, the Company established a new $1.6 billion captive financing facility to finance non-economic reserves required under Guideline XXX. Similar to the Company’s other captive financing facilities, a captive reinsurance subsidiary issues surplus notes under the facility in exchange for credit-linked notes issued by a special-purpose affiliate that are held to support non-economic reserves. The credit-linked notes are redeemable for cash upon the occurrence of a liquidity stress event affecting the captive and external counterparties have agreed to fund these payments. As of March 31, 2018, $100 million of surplus notes were outstanding under the facility and no credit-linked note payments have been required. Because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company’s total consolidated borrowings on a net basis.

Senior Notes

Medium-Term Notes. Prudential Financial maintains a medium-term notes program under its shelf registration statement with an authorized issuance capacity of $20.0 billion. As of March 31, 2018, the outstanding balance of the Company's medium-term notes was $8.7 billion, an increase of $1 billion from December 31, 2017. The increase was due to the issuance of $600 million of notes with an interest rate of 3.878% maturing in March 2028 and $400 million of notes with an interest rate of 4.418% maturing in March 2048.

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

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

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

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

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

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

11. EQUITY

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

	Common Stock		
	Issued	Held In Treasury	Outstanding
	(in millions)		
Balance, December 31, 2017	660.1	237.5	422.6
Common Stock issued	0.0	0.0	0.0
Common Stock acquired	0.0	3.3	(3.3)
Stock-based compensation programs(1)	0.0	(1.7)	1.7
Balance, March 31, 2018	660.1	239.1	421.0

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

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

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

Accumulated Other Comprehensive Income (Loss)

The balance of and changes in each component of "Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc." for the three months ended March 31, 2018 and 2017, are as follows:

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	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, 2017	$(269)	$ 19,968	$ (2,625)	$ 17,074
Change in OCI before reclassifications	649	(4,640)	(2)	(3,993)
Amounts reclassified from AOCI	0	(26)	56	30
Income tax benefit (expense)	8	845	(9)	844
Cumulative effect of adoption of ASU 2016-01	0	(847)	0	(847)
Cumulative effect of adoption of ASU 2018-02	(231)	2,282	(398)	1,653
Balance, March 31, 2018	$157	$ 17,582	$ (2,978)	$ 14,761

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	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, 2016	$(973)	$ 18,171	$ (2,577)	$ 14,621
Change in OCI before reclassifications	570	(319)	(12)	239
Amounts reclassified from AOCI	1	(490)	56	(433)
Income tax benefit (expense)	(62)	293	(15)	216
Balance, March 31, 2017	$(464)	$ 17,655	$ (2,548)	$ 14,643

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

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

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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 5 for additional information on cash flow hedges.
(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition and other costs, future policy benefits and policyholders' dividends.
(5) See Note 10 for information on employee benefit plans.

Net Unrealized Investment Gains (Losses)

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

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

	Net Unrealized Gains (Losses) on Investments	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, 2017	$286	$ (2)	$ 3	$ (46)	$ (94)	$ 147
Net investment gains (losses) on investments arising during the period	(10)				6	(4)
Reclassification adjustment for (gains) losses included in net income	(41)				24	(17)
Reclassification adjustment for OTTI losses excluded from net income(1)	(1)				1	0
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		0			0	0
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances and reinsurance payables			0		0	0
Impact of net unrealized investment (gains) losses on policyholders' dividends				17	(8)	9
Balance, March 31, 2018	$234	$ (2)	$ 3	$ (29)	$ (71)	$ 135

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

All Other Net Unrealized Investment Gains (Losses) in AOCI

	Net Unrealized Gains (Losses) on Investments(1)	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, 2017	$36,112	$ (1,580)	$ (1,243)	$ (3,631)	$(9,837)	$ 19,821

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

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(1) Includes cash flow hedges. See Note 5 for information on cash flow hedges.

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

12. EARNINGS PER SHARE

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

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

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings attributable to Prudential Financial are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. During periods of net income available to holders of Common Stock, the calculation of earnings per share excludes the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of a net loss available to holders of Common Stock, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended March 31, 2018 and 2017, as applicable, were based on 4.9 million and 5.3 million of such awards, respectively, weighted for the period they were outstanding.

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

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	Three Months Ended March 31,			
	2018		2017	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	0.3	$ 107.65	0.2	$ 110.45
Antidilutive stock options due to net loss available to holders of Common Stock	0.0		0.0	
Antidilutive shares based on application of the treasury stock method	0.0		0.5	
Antidilutive shares due to net loss available to holders of Common Stock	0.0		0.0	
Total antidilutive stock options and shares	0.3		0.7	

In September 2009, the Company issued $500 million of surplus notes with an interest rate of 5.36% per annum which are exchangeable at the option of the note holders for shares of Common Stock. The initial exchange rate for the surplus notes was 10.1235 shares of Common Stock per each $1,000 principal amount of surplus notes. This was equivalent to 5.1 million shares and an initial exchange price per share of Common Stock of $98.78. The exchange rate is subject to customary anti-dilution adjustments and is accordingly revalued during the fourth quarter of each year. As of March 31, 2018, the exchange rate is equal to 11.7643 shares of Common Stock per each $1,000 principal amount of surplus notes. This is equivalent to 5.88 million shares and an exchange price per share of Common Stock of $85.00. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes are outstanding, are added to the denominator, and the related interest expense, net of tax, is excluded from the numerator, if the overall effect is dilutive.

13. SEGMENT INFORMATION

Segments

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

Adjusted Operating Income

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

- realized investment gains (losses), net, and related adjustments;
- charges related to realized investment gains (losses), net;
- net investment gains (losses) on assets supporting experience-rated contractholder liabilities and changes in experience-rated contractholder liabilities due to asset value changes;
- divested businesses; and
- equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

These items are important to an understanding of overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and the Company's definition of adjusted operating income may differ from that used by other companies. The Company, however, believes that the presentation of adjusted operating income as measured for management purposes enhances the understanding of results of operations by highlighting the results from ongoing operations and the underlying profitability factors of its businesses. For more information on these reconciling items, see Note 22 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

Reconciliation of adjusted operating income and net income (loss)

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

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

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

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

Reconciliation of select financial information

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

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

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

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

	Three Months Ended March 31,	
	2018	2017
	(in millions)	
Investment Management segment intersegment revenues	$184	$172

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PRUDENTIAL FINANCIAL, INC.
Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

14. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and Guarantees

Commercial Mortgage Loan Commitments

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

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

Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

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

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

Indemnification of Securities Lending Transactions

	March 31, 2018	December 31, 2017
	(in millions)	
Indemnification provided to certain securities lending clients	$5,142	$ 4,619
Fair value of related collateral associated with above indemnifications	$5,233	$ 4,722
Accrued liability associated with guarantee	$0	$ 0

In the normal course of business, the Company may facilitate securities lending transactions on behalf of certain client accounts (collectively, "the accounts") for which the Company is also the investment advisor and/or the asset manager. In certain of these arrangements, the Company has provided an indemnification to the accounts to hold them harmless against losses caused by counterparty (i.e., borrower) defaults associated with the securities lending activity facilitated by the Company. Collateral is provided by the counterparty to the accounts at the inception of the loan equal to or greater than 102% of the fair value of the loaned securities and the collateral is maintained daily at 102% or greater of the fair value of the loaned securities. The Company is only at risk if the counterparty to the securities lending transaction defaults and the value of the collateral held is less than the value of the securities loaned to such counterparty. The Company believes the possibility of any payments under these indemnities is remote.

Credit Derivatives Written

As discussed further in Note 5, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security.

Guarantees of Asset Values

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

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

Indemnification of Serviced Mortgage Loans

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

As part of the commercial mortgage activities of the Company's Investment Management segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and makes payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company's percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company determines the liability related to this exposure using historical loss experience, and the size and remaining life of the asset. The Company services $13,078 million and $12,892 million of mortgages subject to these loss-sharing arrangements as of March 31, 2018 and December 31, 2017, respectively, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of March 31, 2018, these mortgages had a weighted-average debt service coverage ratio of 1.85 times and a weighted-average loan-to-value ratio of 60%. As of December 31, 2017, these mortgages had a weighted average debt service coverage ratio of 1.82 times and a weighted-average loan-to-value ratio of 59%. The Company had no losses related to indemnifications that were settled for the three months ended March 31, 2018 and 2017, respectively.

Other Guarantees

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

The Company is also subject to other financial guarantees and indemnity arrangements. The Company has provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Included above is $31 million for both March 31, 2018 and December 31, 2017 of yield maintenance guarantees related to certain investments the Company sold. The Company does not expect to make any payments on these guarantees and is not carrying any liabilities associated with these guarantees.

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

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Contingent Liabilities

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

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

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

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of the Company's businesses and operations that are specific to it and proceedings that are typical of the businesses in which it operates, including in both cases businesses that have been either divested or placed in wind down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established but the matter, if potentially material, is disclosed, including matters discussed below. The Company estimates that as of March 31, 2018, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than $250 million. Any estimate is not an indication of expected loss, if any, or the Company's maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

The following discussion of litigation and regulatory matters provides an update of those matters discussed in Note 23 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, and should be read in conjunction with the complete descriptions provided in the Form 10-K.

Individual Annuities, Individual Life and Group Insurance

Huffman v. The Prudential Insurance Company of America

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

Other Matters

Rosen v. PRIAC, et al.

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

Residential Mortgage-Backed Securities Trustee Litigation

PICA et al. v. Citibank N.A.

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

PICA et al. v. HSBC, et al.

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

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

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

Summary

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

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

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Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") addresses the consolidated financial condition of Prudential Financial, Inc. ("Prudential," "PFI," or "the Company") as of March 31, 2018, compared with December 31, 2017, and its consolidated results of operations for the three months ended March 31, 2018 and 2017. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the "Risk Factors" section, and the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as well as the statements under "Forward-Looking Statements" and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

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Overview

Prudential Financial, a financial services leader with approximately $1.389 trillion of assets under management as of March 31, 2018, has operations primarily in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, and investment management. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

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

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

Regulatory Developments

Fiduciary Rules

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

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

For additional information on the potential impacts of regulation on the Company, see “Business—Regulation” and “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Impact of a Low Interest Rate Environment

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

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

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

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

U.S. Operations excluding the Closed Block Division

Interest rates in the U.S. continue to remain lower than historical levels, despite the Federal Reserve Board's action in March 2018 to further raise short-term interest rates by a total of 25 basis points ("bps"). Market conditions and events make uncertain the timing, amount and impact of any further monetary policy decisions by the Federal Reserve. Given this continued low rate environment, our current reinvestment yields remain lower than the overall portfolio yield, primarily for our investments in fixed maturity securities and commercial mortgage loans and, as a result, our overall portfolio yields are expected to continue to decline.

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

Included in the $192 billion of fixed maturity securities and commercial mortgage loans are approximately $110 billion that are subject to call or redemption features at the issuer's option and have a weighted average interest rate of approximately 4%. Of this $110 billion, approximately 65% contain provisions for prepayment premiums. The reinvestment of scheduled payments or prepayments (not subject to a prepayment fee) at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, will impact future operating results to the extent we do not, or are unable to, reduce crediting rates on in force blocks of business, or effectively utilize other asset/liability management strategies described below, in order to maintain current net interest margins.

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

	As of March 31, 2018 (in billions)
Long-duration insurance products with fixed and guaranteed terms	$ 113
Contracts with adjustable crediting rates subject to guaranteed minimums	56
Participating contracts where investment income risk ultimately accrues to contractholders	15
Total	$ 184

The $113 billion above relates to long-duration products such as group annuities, structured settlements and other insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. We seek to mitigate the impact of a prolonged low interest rate environment on these contracts through asset/liability management, as discussed further below.

The $56 billion above relates to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Although we may have the ability to lower crediting rates for those contracts above guaranteed minimums, our willingness to do so may be limited by competitive pressures. The following table sets forth the related account values by range of guaranteed minimum crediting rates and the related range of the difference, in bps, between rates being credited to contractholders as of March 31, 2018, and the respective guaranteed minimums.

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

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(1) Includes approximately $0.9 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity.

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

Assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 2.90% for the period from April 1, 2018 through December 31, 2019, and credit spreads remain unchanged from levels as of March 31, 2018, we estimate that the unfavorable impact to pre-tax adjusted operating income of reinvesting in such an environment, compared to reinvesting at current average portfolio yields, would be approximately $7 million in 2018 and $31 million in 2019. This impact is most significant in the Retirement and Individual Annuities segments. This hypothetical scenario only reflects the impact related to the approximately $56 billion of contracts shown in the table above, and does not reflect: any benefit from potential changes to the crediting rates on the corresponding contractholder liabilities where the Company has the contractual ability to do so, or other potential mitigants such as changes in investment mix that we may implement as funds are reinvested; any impact related to assets that do not directly support our liabilities; any impact from other factors, including but not limited to, new business, contractholder behavior, product modifications, changes in product offerings, changes in competitive conditions or changes in capital markets; or any impact from other factors described below. See "—Segment Measures" for a discussion of adjusted operating income and its use as a measure of segment operating performance.

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

Closed Block Division

Substantially all of the $60 billion of general account assets in the Closed Block division support obligations and liabilities relating to the Closed Block policies only. See Note 7 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

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International Insurance Operations

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

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

	As of March 31, 2018 (in billions)
Long-duration insurance products with fixed and guaranteed terms	$ 132
Contracts with a market value adjustment if invested amount is not held to maturity	25
Contracts with adjustable crediting rates subject to guaranteed minimums	10
Total	$ 167

The $132 billion above is predominantly comprised of long-duration insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than current portfolio yields. The remaining insurance liabilities and policyholder account balances include $25 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity and $10 billion related to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Most of the current crediting rates on these contracts, however, are at or near contractual minimums. Although we have the ability in some cases to lower crediting rates for those contracts that are above guaranteed minimum crediting rates, the majority of this business has interest crediting rates that are determined by formula.

Assuming a hypothetical scenario within our Japanese and Korean operations where 2018 new money yields would be 25 bps lower than projected, and applying these lower new money yields to annualized investment of renewal premiums, proceeds from investment disposition and reinvestment of investment income, we estimate that the unfavorable impact would reduce adjusted operating income in 2018 by approximately $10 to $15 million. This hypothetical scenario excludes first-year premium, single pay premium, multi-currency fixed annuity cash flows, any potential benefit from repricing products, and any impact from other factors, including but not limited to new business, contractholder behavior, changes in competitive conditions, changes in capital markets, and the effect of derivative instruments.

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Results of Operations

Consolidated Results of Operations

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

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

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

- $268 million net unfavorable variance, on a pre-tax basis, primarily from a loss in the current period from our Divested Businesses compared to income in the prior period; and
- $205 million unfavorable variance from net pre-tax realized investment gains and losses for PFI excluding the Closed Block division, and excluding the impact of the hedging program associated with certain variable annuities discussed below (see “—Realized Investment Gains and Losses” for additional information).

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

- $360 million favorable variance, on a pre-tax basis, reflecting the net impact from changes in the value of our embedded derivatives and related hedge positions associated with certain variable annuities (see “—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities—Variable Annuity Risks and Risk Mitigants” for additional information); and
- $107 million net favorable variance from higher operating results from our business segments and lower income tax expense due to lower net income compared to the prior year period as well as the impact of tax reform (see Note 8 to the Unaudited Interim Consolidated Financial Statements).

Segment Results of Operations

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

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

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

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

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

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

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

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

(6) Represents the contribution to income (loss) of divested businesses that have been or will be sold or exited, including businesses that have been placed in wind down, but that did not qualify for "discontinued operations"

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

(7) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income before income taxes and equity in earnings of operating joint ventures as they are reflected on an after-tax U.S. GAAP basis as a separate line item in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income before taxes and equity earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

Results for the periods presented above reflect the following:

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

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

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

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

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

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

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

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

Segment Measures

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

See Note 13 to the Unaudited Interim Consolidated Financial Statements for further information on the presentation of segment results and our definition of adjusted operating income.

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

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

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

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

Impact of Foreign Currency Exchange Rates

Foreign currency exchange rate movements and related hedging strategies

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

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

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

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

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

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

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

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

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(2) Excludes $43.0 billion and $41.2 billion as of March 31, 2018 and December 31, 2017, respectively, of U.S. dollar-denominated assets supporting U.S. dollar-denominated liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations.

(3) Includes U.S. dollar-denominated fixed maturities at amortized cost and U.S. dollar notional amount of foreign currency derivative contracts outstanding.

(4) Dual currency and synthetic dual currency investments are held by our yen-based entities in the form of fixed maturities and loans with a yen-denominated principal component and U.S. dollar-denominated interest income. The amounts shown represent the present value of future U.S. dollar-denominated cash flows.

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

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

Impact of foreign currency exchange rate movements on earnings

The financial results of our International Insurance and Investment Management segments reflect the impact of intercompany arrangements with our Corporate and Other operations pursuant to which certain of these segments' non-U.S. dollar-denominated earnings are translated at fixed currency exchange rates. The financial results of our Retirement segment reflected the impact of an intercompany foreign currency exchange arrangement with our Corporate and Other operations in 2016 and 2017 prior to its termination effective January 1, 2018. This foreign currency exchange risk is now managed within our Retirement segment using a strategy that may include external hedges. Results of our Corporate and Other operations include any differences between the translation adjustments recorded by the segments at the fixed currency exchange rate versus the actual average rate during the period. In addition, specific to our International Insurance segment where we hedge certain currencies, as further discussed below, the results of our Corporate and Other operations also include the impact of any gains or losses recorded from the forward currency contracts that settled during the period, which include the impact of any over or under hedging of actual earnings that differ from projected earnings.

For International Insurance, the fixed currency exchange rates are generally determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. Pursuant to this program, our Corporate and Other operations execute forward currency contracts with third-parties to sell the net exposure of projected earnings for certain currencies in exchange for U.S. dollars at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-U.S. dollar-denominated earnings are expected to be generated. In establishing the level of non-U.S. dollar-denominated earnings that will be hedged through this program, we exclude the anticipated level of U.S. dollar-denominated earnings that will be generated by U.S. dollar-denominated products and investments. For the three months ended March 31, 2018, approximately 25% of the segment's earnings were yen-based and, as of March 31, 2018, we have hedged 100% of expected yen-based earnings for 2018, and 79% and 30% of expected yen-based earnings for 2019 and 2020, respectively. To the extent currently unhedged, our International Insurance segment's future expected U.S. dollar-equivalent of yen-based earnings will be impacted by yen exchange rate movements.

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

As a result of these arrangements, for Investment Management and certain currencies within International Insurance, the fixed currency exchange rates for the current year are predetermined during the third quarter of the prior year using forward currency exchange rates.

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

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

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

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

(3) As of March 31, 2018 and 2017, the notional amounts of these forward currency contracts within our Corporate and Other operations were $2.8 billion and $2.7 billion, respectively, of which $1.5 billion and $1.5 billion, respectively, were related to our Japanese insurance operations.

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

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

In the first quarter of 2015, we implemented a structure in Gibraltar Life's operations that disaggregated the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The result of this alignment was to reduce differences in the accounting for changes in the value of these assets and liabilities that arise due to changes in foreign currency exchange rate movements. For the U.S. and Australian dollar-denominated assets that were transferred under this structure, the net cumulative unrealized investment gains associated with foreign exchange remeasurement that were recorded in

“Accumulated other comprehensive income (loss)” (“AOCI”) totaled $3.7 billion and $3.9 billion as of March 31, 2018 and December 31, 2017, respectively, and will be recognized in earnings within “Realized investment gains (losses), net” over time as these assets mature or are sold. Absent the sale of any of these assets prior to their stated maturity, approximately 7% of the $3.7 billion balance as of March 31, 2018 will be recognized throughout the remainder of 2018, approximately 9% will be recognized in 2019, and a majority of the remaining balance will be recognized from 2020 through 2024.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

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

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

DAC, DSI and VOBA

The near-term future equity rate of return assumption used in evaluating DAC, DSI and VOBA for our domestic variable annuity and variable life insurance products is derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the "near-term") so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15%, we use our maximum future rate of return. As of March 31, 2018, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 4.3% near-term mean reversion equity expected rate of return.

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

Adoption of New Accounting Pronouncements

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

Results of Operations by Segment

U.S. Individual Solutions Division

Individual Annuities

Operating Results

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

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

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Adjusted Operating Income

Adjusted operating income increased $51 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased $54 million. The increase was primarily driven by higher asset-based fee income, net of associated costs, as well as lower amortization costs and reserve provisions, partially offset by lower net investment spread results. The increase in asset-based fee income, net of a related increase in asset-based commission expense, primarily reflects higher average variable annuity account values due to market appreciation. The lower reserve provisions are also attributable to market appreciation of account values in comparison to the prior year period. The decrease in net investment spread results reflects lower investment income on non-coupon investments, partially offset by a higher level of invested assets.

The impacts of changes in the estimated profitability of the business include adjustments to the amortization of DAC and other costs as well as to the reserves for certain living and/or death benefit features of our variable annuity products. These adjustments resulted in a net benefit of $16 million and $19 million in the first quarter of 2018 and 2017, respectively. The net benefit for both periods primarily reflected the impact of equity market performance on the contractholder accounts. The first quarter of 2018 also reflects the hedge effectiveness relative to our assumptions.

Revenues, Benefits and Expenses

Revenues, as shown in the table above under "—Operating Results," increased $37 million. Excluding a $14 million net decrease related to the impacts of certain changes in our estimated profitability of the business, as discussed above, revenues increased $51 million. Higher average variable annuity account values and impacts from our risk management strategy drove increases in policy charges and fee income, and asset management and service fees and other income.

Benefits and expenses, as shown in the table above under "—Operating Results," decreased $14 million. Excluding a $11 million net decrease related to the impacts of certain changes in our estimated profitability of the business, as discussed above, benefits and expenses decreased $3 million.

Account Values

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

	Three Months Ended March 31,		Twelve Months Ended March 31
	2018	2017	2018
Total Individual Annuities(1):			
Beginning total account value	$168,626	$156,783	$160,319

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

(1) Includes variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment. Variable annuity account values were $161.2 billion and $156.8 billion as of March 31, 2018 and 2017, respectively. Fixed annuity account values were $3.5 billion as of both March 31, 2018 and 2017.

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

Variable Annuity Risks and Risk Mitigants

The following is a summary of: (i) certain risks associated with Individual Annuities' products; (ii) certain strategies in mitigating those risks, including any updates to those strategies since the previous year end; and (iii) the related financial results. For a more detailed description of these items and their related accounting treatment, refer to the complete descriptions provided in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

Product Design Features

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

Asset Liability Management ("ALM") Strategy (including fixed income instruments and derivatives)

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

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

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

As of March 31, 2018, our fixed income instruments and derivative assets exceed the economic liability within the entities in which the risks reside.

The following table illustrates the net impact of our Consolidated Statements of Operations from changes in the U.S. GAAP embedded derivative liability and hedge positions under the ALM strategy, and the related amortization of DAC and other costs, that are excluded from adjusted operating income.

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

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(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.

(3) 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.

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

For the first quarter of 2017, the net impact was a charge of $62 million. Net hedging impacts reflect a $48 million net benefit, primarily driven by declining interest rate volatility. Changes in the NPR adjustment resulted in a $753 million net charge, driven by the tightening of credit spreads and net decreases in the base embedded derivative liability before NPR primarily due to equity market appreciation and rising swap rates. Each of these items resulted in partial offsets included in the $11 million related benefit to amortization of DAC and other costs.

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

Capital Hedge Program

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

External Reinsurance

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

Product Specific Risks and Risk Mitigants

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

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

(1) All contracts with living benefit guarantees also contain GMDB features, which cover the same insured contract.
(2) Contracts with living benefits that are included in the ALM strategy and have an automatic rebalancing feature.
(3) Represents contracts subject to a reinsurance transaction with an external counterparty that covered certain new HDI business from April 1, 2015 through December 31, 2016. These contracts with living benefits also have an automatic rebalancing feature.
(4) Includes contracts that have a GMDB feature and do not have an automatic rebalancing feature.

Individual Life

Operating Results

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

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

Adjusted Operating Income

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

Revenues, Benefits and Expenses

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