ROCK ROBERT H
Form 4
June 05, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
ROCK ROBERT H

(Last) (First) (Middle)

QUAKER CHEMICAL CORPORATION, ONE QUAKER PARK, 901 E. HECTOR STREET

(Street)

CONSHOHOCKEN, PA 19428-2380

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
QUAKER CHEMICAL CORP [KWR]

3. Date of Earliest Transaction (Month/Day/Year)
06/01/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	06/01/2012		A		1,181 (1)	A	$ 0	16,526	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ROCK ROBERT H QUAKER CHEMICAL CORPORATION ONE QUAKER PARK, 901 E. HECTOR STREET CONSHOHOCKEN, PA 19428-2380	X			

Signatures

Irene M. Kisleiko, Attorney-in-Fact for Robert H. Rock	06/05/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Time-based restricted stock award granted to Quaker's independent directors as part of their 2012 compensation.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. vertical-align:bottom;border-bottom:1px solid #000000;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;border-top:1px solid #000000;">
2018

2017

(in millions)
Revenues by type:

Asset management fees by source:

Institutional customers

$
302

$
296

$
893

$
850

Retail customers(1)

221

203

657

582

General account

118

120

353

354

Total asset management fees

641

619

1,903

1,786

Other related revenues by source:

Incentive fees

13

6

24

20

Transaction fees

5

4

23

20

Strategic investing

7

34

60

77

Commercial mortgage(2)

23

39

79

93

Total other related revenues(3)

48

83

186

210

Service, distribution and other revenues(4)

128

125

370

374

Total revenues

$
817

$
827

$
2,459

$
2,370

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

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

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

(4) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004, implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was $17 million and $19 million for the three months ended September 30, 2018 and 2017, respectively, and $54 million and $61 million for the nine months ended September 30, 2018 and 2017, respectively.

Three Month Comparison. Revenues, as shown in the table above, decreased $10 million. Other related revenues decreased $35 million primarily due to lower strategic investing results from the absence of outsized investment performance and a decrease in commercial mortgage agency loan originations. This decrease was partially offset by an increase of $22 million in total asset management fees, primarily due to the increase in assets under management driven by net fixed income inflows and equity market appreciation.

Expenses, as shown in the table above under "—Operating Results," increased $19 million, primarily reflecting an increase in compensation related expenses.

Nine Month Comparison. Revenues increased $89 million. Total asset management fees increased $117 million, primarily due to an increase in assets under management driven by net fixed income inflows and equity market appreciation. This increase was partially offset by a decrease of $24 million in other related revenues reflecting lower strategic investing results, driven by less favorable investment performance, and a decrease in commercial mortgage agency loan originations.

Expenses increased $46 million, primarily reflecting higher compensation attributable to higher compensable earnings and higher non-compensation related expenses supporting business growth.

Assets Under Management

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

90

Table of Contents

	September 30, 2018	December 31, 2017	September 30, 2017
	(in billions)		
Assets Under Management (at fair value):			
Institutional customers:			
Equity	$64.0	$ 68.0	$ 65.1
Fixed income	398.3	379.4	370.1
Real estate	43.4	42.1	43.1
Institutional customers(1)	505.7	489.5	478.3
Retail customers:			
Equity	137.3	132.4	127.9
Fixed income	119.4	111.5	110.3
Real estate	1.6	1.7	1.7
Retail customers(2)	258.3	245.6	239.9
General account:			
Equity	5.6	5.8	6.2
Fixed income	403.1	412.5	407.6
Real estate	1.9	1.9	1.9
General account	410.6	420.2	415.7
Total assets under management	$1,174.6	$ 1,155.3	$ 1,133.9

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

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

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

91

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2018	2017	2018	2017	2018
	(in billions)				
Institutional Customers:					
Beginning assets under management	$490.8	$461.2	$489.5	$431.5	$478.3
Net additions (withdrawals), excluding money market activity:					
Third-party	9.3	4.7	14.6	11.7	14.5
Third-party via affiliates(1)	0.1	0.0	(0.3)	(0.8)	2.9
Total	9.4	4.7	14.3	10.9	17.4
Market appreciation (depreciation)(3)	4.9	10.2	(0.3)	33.0	9.6
Other increases (decreases)(2)	0.6	2.2	2.2	2.9	0.4
Ending assets under management	$505.7	$478.3	$505.7	$478.3	$505.7
Retail Customers:					
Beginning assets under management	$252.0	$231.2	$245.6	$209.2	$239.9
Net additions (withdrawals), excluding money market activity:					
Third-party	(0.6)	1.3	2.2	2.6	3.7
Third-party via affiliates(1)	(0.9)	(1.5)	(2.1)	2.3	(6.4)
Total	(1.5)	(0.2)	0.1	4.9	(2.7)
Market appreciation (depreciation)(3)	7.8	9.3	12.8	26.2	21.3
Other increases (decreases)(2)	0.0	(0.4)	(0.2)	(0.4)	(0.2)
Ending assets under management	$258.3	$239.9	$258.3	$239.9	$258.3
General Account:					
Beginning assets under management	$413.3	$412.3	$420.2	$399.4	$415.7
Net additions (withdrawals), excluding money market activity:					
Third-party	0.0	0.0	0.0	0.0	0.0
Affiliated	1.7	(0.9)	3.1	2.5	4.5
Total	1.7	(0.9)	3.1	2.5	4.5
Market appreciation (depreciation)(3)	(1.7)	2.5	(8.4)	11.4	(4.8)
Other increases (decreases)(2)	(2.7)	1.8	(4.3)	2.4	(4.8)
Ending assets under management	$410.6	$415.7	$410.6	$415.7	$410.6
Total assets under management	$1,174.6	$1,133.9	$1,174.6	$1,133.9	$1,174.6

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

(2) Includes the effect of foreign exchange rate changes, net money market activity and the impact of acquired business. The impact from foreign currency fluctuations, which primarily impact the general account, resulted in a loss of $2.8 billion and no impact for the three months ended September 30, 2018 and 2017, respectively, a loss of $2.3 billion and a gain of $4.6 billion for the nine months ended September 30, 2018 and 2017, respectively, and a loss of $2.2 billion for the twelve months ended September 30, 2018.

(3) Includes income reinvestment, where applicable.

Strategic Investments

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

92

Table of Contents

	September 30, 2018	December 31, 2017
	(in millions)	
Co-Investments:		
Real estate	$197	$ 185
Fixed income	420	584
Seed Investments:		
Real estate	52	50
Public equity	702	658
Fixed income	286	309
Total	$1,657	$ 1,786

The decrease in strategic investments was primarily driven by sales of investments in U.S. collateralized loan obligations due to risk retention rules that were vacated in April 2018. This decrease was partially offset by investments in new collateralized loan obligations and seed investments in new mutual funds.

U.S. Workplace Solutions Division

Retirement

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Operating results(1):				
Revenues	$4,203	$3,259	$9,280	$8,803
Benefits and expenses	3,964	3,011	8,447	7,850
Adjusted operating income	239	248	833	953
Realized investment gains (losses), net, and related adjustments	(66)	(109)	(99)	(42)
Related charges	2	3	(14)	1
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	(66)	29	(574)	219
Change in experience-rated contractholder liabilities due to asset value changes	55	25	470	(77)
Income (loss) before income taxes and equity in earnings of operating joint ventures	$164	$196	$616	$1,054

(1) Certain of our Retirement segment's non-U.S. dollar-denominated earnings are from longevity reinsurance contracts, which are denominated in British pounds sterling, and are therefore subject to foreign currency exchange rate risk. From January 1, 2016 through December 31, 2017, the financial results of our Retirement segment included the impact of an intercompany arrangement with our Corporate and Other operations designed to mitigate the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. Effective January 1, 2018 this intercompany arrangement was terminated and the foreign currency exchange rate risk is now managed within our Retirement segment using a strategy that may include external hedges. The impact of the agreement and the

termination was not significant to the segment's results. For more information related to this intercompany arrangement, see "—Results of Operations—Impact of Foreign Currency Exchange Rates," above.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased $9 million, primarily driven by a lower contribution from reserve experience, partially offset by higher net investment spread results. The lower contribution from reserve experience primarily reflected lower mortality gains on a comparative basis within our pension risk transfer business in the current year period. The increase in net investment spread results primarily reflected higher income on non-coupon investments and growth in average account values, partially offset by lower net prepayment fee income and the impact of higher crediting rates on full service account values.

93

Table of Contents

Nine Month Comparison. Adjusted operating income decreased $120 million. Results for 2018 and 2017 reflected a net charge of $68 million and $20 million, respectively, from our annual reviews and update of assumptions and other refinements. Excluding these impacts, adjusted operating income decreased $72 million, primarily driven by lower net investment spread results and higher general and administrative expenses, partially offset by more favorable reserve experience. The decrease in net investment spread results primarily reflected lower income on non-coupon investments, lower net prepayment fee income, lower reinvestment rates and the impact of higher crediting rates on full service account values, partially offset by growth in average account values. The increase in general and administrative expenses was primarily driven by higher operating expenses. The higher contribution from reserve experience primarily reflected higher mortality gains on a comparative basis within our pension risk transfer business.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," increased $944 million. Premiums increased $905 million, primarily driven by more significant pension risk transfer transactions in the current year period. This increase in premiums resulted in a corresponding increase in policyholders' benefits, as discussed below. Investment income increased $16 million, primarily reflecting higher asset balances, including higher pension risk transfer account value balances, and higher income on non-coupon investments, partially offset by lower net prepayment fee income.

Benefits and expenses, as shown in the table above under "—Operating Results," increased $953 million. Policyholders' benefits, including the change in policy reserves, increased $935 million, primarily related to the increase in premiums discussed above.

Nine Month Comparison. Revenues increased $477 million. Premiums increased $492 million, primarily driven by more significant pension risk transfer transactions in the current year period. This increase in premiums resulted in a corresponding increase in policyholders' benefits, as discussed below. Net investment income decreased $41 million, primarily reflecting lower income on non-coupon investments, lower net prepayment fee income and lower reinvestment rates, partially offset by higher asset balances, including growth in our pension risk transfer business.

Benefits and expenses increased $597 million. Excluding the impact of our annual reviews and update of assumptions, as discussed above, benefits and expenses increased $549 million primarily driven by an increase in policyholders' benefits, including the change in policy reserves, related to the increase in premiums discussed above.

Account Values

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

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2018	2017	2018	2017	2018
	(in millions)				
Full Service:					
Beginning total account value	$240,922	$214,731	$234,616	$202,802	$227,438
Deposits and sales	8,843	11,188	26,477	22,695	33,309
Withdrawals and benefits	(5,864)	(5,132)	(20,488)	(17,608)	(27,691)
Change in market value, interest credited and interest income and other activity	7,371	6,651	10,667	19,549	18,216
Ending total account value	$251,272	$227,438	$251,272	$227,438	$251,272
Net additions (withdrawals)	$2,979	$6,056	$5,989	$5,087	$5,618
Institutional Investment Products:					
Beginning total account value	$191,722	$186,610	$194,492	$183,376	$188,399
Additions(1)	6,318	4,764	12,467	11,363	22,734
Withdrawals and benefits	(3,345)	(3,552)	(12,085)	(11,964)	(17,527)
Change in market value, interest credited and interest income	1,146	1,341	2,130	4,243	3,077
Other(2)	(604)	(764)	(1,767)	1,381	(1,446)
Ending total account value	$195,237	$188,399	$195,237	$188,399	$195,237
Net additions (withdrawals)	$2,973	$1,212	$382	$(601)	$5,207

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

(2) "Other" activity includes the effect of foreign exchange rate changes associated with our British pounds sterling denominated longevity reinsurance business and changes in asset balances for externally-managed accounts. For the three and nine months ended September 30, 2018, "other" activity also includes $591 million in receipts offset by $601 million in payments and $2,822 million in receipts offset by $2,789 million in payments, respectively, related to funding agreements backed by commercial paper which typically have maturities of less than 90 days.

The increase in full service account values for the twelve months ended September 30, 2018, primarily reflected the favorable changes in the market value of customer funds and net additions from positive net plan sales. The decrease in net additions for the three months ended September 30, 2018, compared to the prior year period, was primarily driven by large plan sales in the prior year period, including a significant defined contribution transaction. The increase in net additions for the nine months ended September 30, 2018, compared to the prior year period, was primarily driven by higher large plan sales in the current year period, partially offset by higher large plan lapses.

The increase in institutional investment products account values for the twelve months ended September 30, 2018, primarily reflected net additions resulting from pension risk transfer transactions and interest credited to customer funds. These increases were partially offset by net withdrawals primarily from investment-only stable value accounts. The increase in net additions for the three months ended September 30, 2018, compared to the prior year period, were primarily driven by higher net additions related to pension risk transfer transactions. The net additions for the nine months ended September 30, 2018, compared to net withdrawals for the prior year period, was primarily driven by higher net additions related to pension risk transfer transactions.

Group Insurance

Business Update

During the second quarter of 2018, we entered into a yearly renewable term reinsurance agreement with certain external counterparties to reinsure a portion of the mortality risk associated with our group life business. This resulted in a reduction in risk-based capital required to be held in the segment. Under U.S. GAAP, this agreement will be accounted for under deposit accounting. Going forward, we expect this transaction to have a modest negative impact on the segment's adjusted operating income as a result of risk charge expenses associated with the reinsurance arrangement and lost investment income on capital released as a result of the transaction.

95

Table of Contents

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	($ in millions)			
Operating results:				
Revenues	$1,430	$1,363	$4,270	$4,108
Benefits and expenses	1,371	1,302	4,074	3,877
Adjusted operating income	59	61	196	231
Realized investment gains (losses), net, and related adjustments	(3)	(11)	(12)	(23)
Related charges	0	1	0	0
Income (loss) before income taxes and equity in earnings of operating joint ventures	$56	$51	$184	$208
Benefits ratio(1):				
Group life(2)	87.3 %	87.0 %	87.3 %	88.7 %
Group disability(2)	78.9 %	78.7 %	73.9 %	67.1 %
Total Group Insurance(2)	85.7 %	85.5 %	84.7 %	84.8 %
Administrative operating expense ratio(3):				
Group life	11.5 %	11.2 %	11.9 %	10.8 %
Group disability	26.8 %	29.2 %	26.8 %	29.2 %
Total Group Insurance	14.5 %	14.6 %	14.8 %	14.2 %

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

(2) Benefits ratios for the nine months ended September 30, 2018 and 2017 reflect the impacts of our annual reviews and update of assumptions and other refinements. Excluding these impacts, the group life, group disability and total group insurance benefits ratios were 87.7%, 76.5% and 85.5% for the nine months ended September 30, 2018, respectively, and 88.5%, 76.6% and 86.4% for the nine months ended September 30, 2017, respectively.

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

Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased $2 million, reflecting higher expenses primarily related to business growth, partially offset by more favorable underwriting results in our group life and group disability businesses primarily driven by business growth.

Nine Month Comparison. Adjusted operating income decreased $35 million, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2018 included a $31 million net benefit from these updates while results for 2017 included a $55 million net benefit from these updates. The net benefit in both periods was primarily driven by favorable experience related to our group disability business. Excluding the effect of these items, adjusted operating income decreased $11 million, primarily reflecting higher expenses, including expenses related to business growth and the termination of a third-party underwriting service provider contract in the second quarter of 2018, and a lower contribution from net investment spread results driven by lower income on non-coupon investments. These decreases were partially offset by more favorable underwriting

results in our group life and group disability businesses primarily driven by business growth.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," increased $67 million. The increase primarily reflected higher premiums and policy charges and fee income driven by business growth in both our group life and group disability businesses.

Benefits and expenses, as shown in the table above under "—Operating Results," increased $69 million. The increase primarily reflected higher policyholders' benefits and changes in reserves on non-experience-rated contracts in our group life business and

96

Table of Contents

long-term coverage in our group disability business, and an increase in general and administrative expenses driven by higher operating expenses supporting business growth.

Nine Month Comparison. Revenues increased $162 million. Excluding an unfavorable comparative impact of $5 million resulting from our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased $167 million. The increase primarily reflected higher premiums and policy charges and fee income driven by business growth in both our group life and group disability businesses.

Benefits and expenses increased $197 million. Excluding an unfavorable comparative impact of $19 million resulting from our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased $178 million. The increase primarily reflected higher policyholders' benefits and changes in reserves driven by less favorable experience in our group life and group disability businesses, and an increase in general and administrative expenses driven by higher operating expenses supporting business growth and the termination of a third-party underwriting service provider contract.

Sales Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Annualized new business premiums(1):				
Group life	$63	$ 23	$352	$265
Group disability	16	12	170	141
Total	$79	$ 35	$522	$406

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

Total annualized new business premiums for the three months and nine months ended September 30, 2018 increased $44 million and $116 million, respectively, compared to the prior year periods, reflecting continued growth through sales to new and existing clients in both our group life and group disability businesses.

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	Nine Months Ended

	September 30,		September 30,	
	2018	2017	2018	2017
	(in millions)			
Operating results:				
Revenues	$1,224	$1,304	$3,742	$3,825
Benefits and expenses	770	727	2,262	2,168
Adjusted operating income	454	577	1,480	1,657
Realized investment gains (losses), net, and related adjustments	126	1,260	654	(472)
Related charges	(162)	(247)	(383)	512
Income (loss) before income taxes and equity in earnings of operating joint ventures	$418	$1,590	$1,751	$1,697

97

Table of Contents

Adjusted Operating Income

Three Months comparison. Adjusted operating income decreased $123 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income decreased $39 million. The decrease was primarily driven by higher capital hedge costs, higher distribution expenses, and lower asset-based fee income, net of associated costs. The increase in distribution expenses is primarily due to increased sales and asset-based commissions. The decrease in asset-based fee income primarily reflects certain products reaching contractual milestones for fee tier reduction, partially offset by higher average variable annuity account values due to market appreciation.

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 charge of $36 million and a net benefit of $48 million in the third quarter of 2018 and 2017, respectively, reflecting the net impact of equity market performance on contractholder accounts, as well as our hedge effectiveness relative to our assumptions.

Nine Month Comparison. Adjusted operating income decreased $177 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased $2 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, mostly offset by lower net investment spread results, higher capital hedge costs and higher distribution expenses. The increase in asset-based fee income primarily reflects higher average variable annuity account values due to market appreciation, partially offset by the unfavorable fee tier impacts discussed above. 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 primarily reflects lower investment income on non-coupon investments and the increase in distribution expenses is primarily due to increased asset-based commissions and sales.

Adjustments to the amortization of DAC and other costs as well as to the reserves for certain living and/or death benefit features of our variable annuity products resulted in a net charge of $12 million and a net benefit of $167 million in the first nine months of 2018 and 2017, respectively. The net charge in the first nine months of 2018 primarily reflects our hedge effectiveness relative to our assumptions and the unfavorable fund performance relative to indices, partially offset by the favorable net impact of equity market performance on contractholder accounts, as well as a net benefit resulting from our annual reviews and update of assumptions on other refinements. The net benefit in the first nine months of 2017 primarily reflected the favorable net impact of equity market performance on contractholder accounts and our hedge effectiveness relative to our assumptions, as well as a net benefit resulting from our annual reviews and update of assumptions on other refinements.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $80 million. Excluding a $46 million net decrease related to the impacts of certain changes in our estimated profitability of the business, as discussed above, revenues decreased $34 million. The decrease is primarily due to a decrease in asset management and service fees and other income primarily attributable to higher capital hedge costs, a decrease in net investment income driven by lower income on non-coupon investments, and a decrease in policy charges and fee income reflecting the unfavorable fee tier impacts discussed above, partially offset by higher average variable annuity account due to market appreciation.

Benefits and expenses, as shown in the table above under "—Operating Results," increased $43 million. Excluding a $38 million net increase related to the impacts of certain changes in our estimated profitability of the business, as

discussed above, benefits and expenses increased $5 million. General and administrative expense, net of capitalization, increased $21 million driven by higher sales and asset-based commissions, and higher technology costs, partially offset by a decrease of $12 million in policyholders’ benefits, including changes in reserves.

Nine Month Comparison. Revenues decreased $83 million. Excluding a $78 million net decrease related to the impacts of certain changes in our estimated profitability of the business, as discussed above, revenues decreased $5 million. Net investment income decreased by $39 million driven by lower income on non-coupon investments, asset management and service fees and other income decreased by $25 million primarily due to higher capital hedge costs, and premiums decreased by $13 million due to lower annuitizations. These decreases were mostly offset by $71 million increase in policy charges and fee income due to higher average variable annuity account values from market appreciation, partially offset by the unfavorable fee tier impacts discussed above.

98

Table of Contents

Benefits and expenses increased $94 million. Excluding a $101 million net increase related to the impacts of certain changes in our estimated profitability of the business, as discussed above, benefits and expenses decreased $7 million. Policyholders' benefits, including changes in reserves, decreased by $29 million primarily due to lower reserve provisions and annuitizations, interest credited to policyholders' account balance decreased by $14 million, and amortization of DAC decreased by $6 million, primarily driven by favorable markets. These decreases were mostly offset by a $42 million increase in general and administrative expenses, net of capitalization, driven by higher asset-based commissions and sales, as well as higher technology costs.

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 September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2018	2017	2018	2017	2018
	(in millions)				
Total Individual Annuities(1):					
Beginning total account value	$163,645	$162,694	$168,626	$156,783	$165,600
Sales	2,241	1,329	6,032	4,276	7,650
Surrenders and withdrawals	(2,923)	(2,309)	(8,775)	(7,069)	(11,527)
Net sales (withdrawals)	(682)	(980)	(2,743)	(2,793)	(3,877)
Benefit payments	(493)	(431)	(1,586)	(1,401)	(2,058)
Net flows	(1,175)	(1,411)	(4,329)	(4,194)	(5,935)
Change in market value, interest credited and other activity	4,431	5,253	4,471	15,778	10,048
Policy charges	(939)	(936)	(2,806)	(2,767)	(3,751)
Ending total account value	$165,962	$165,600	$165,962	$165,600	$165,962

(1) Includes variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment. Variable annuity account values were $162.4 billion and $162.1 billion as of September 30, 2018 and 2017, respectively. Fixed annuity account values were $3.6 billion and $3.5 billion as of September 30, 2018 and 2017, respectively.

Net withdrawals, for the three months and nine months ended September 30, 2018, increased reflecting higher sales attributable to pricing actions and enhanced distribution, partially offset by higher surrenders and withdrawals.

The increase in account values for the twelve months ended September 30, 2018 was largely driven by favorable changes in the market value of contractholder funds, largely offset by policy charges on contractholder accounts, negative 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.

99

Table of Contents

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 using a traditional ALM strategy through the accumulation of fixed income and derivative instruments, and potential living benefit claims resulting from more severe market conditions, which are hedged using derivative instruments. For the portion of our ALM strategy executed with derivatives, we enter into a range of exchange-traded, cleared, and over-the-counter (“OTC”) equity and interest rate derivatives, including, but not limited to: equity and treasury futures; total return and interest rate swaps; and options including equity options, swaptions, and floors and caps.

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

	As of September 30, 2018	As of December 31, 2017
	(in millions)	
U.S. GAAP liability (including non-performance risk)	$5,213	$ 8,663
Non-performance risk adjustment	3,050	3,228

Subtotal	8,263	11,891
Adjustments including risk margins and valuation methodology differences	(1,951)	(2,742)
Economic liability managed through the ALM strategy	$6,312	$ 9,149

As of September 30, 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.

100

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)(1)			
Excluding impact of assumption updates and other refinements:				
Net hedging impact(2)	$(39)	$96	$(178)	$497
Change in portions of U.S. GAAP liability, before NPR(3)	621	2,012	1,118	2,304
Change in the NPR adjustment	(285)	(883)	(154)	(3,136)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions—reported in Individual Annuities	297	1,225	786	(335)
Related benefit (charge) to amortization of DAC and other costs	(67)	(277)	(235)	68
Net impact of assumption updates and other refinements	0	0	(173)	(85)
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	$230	$948	$378	$(352)

(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 three months ended September 30, 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 $230 million. The net impact from changes in the U.S. GAAP embedded derivative and hedge positions resulted in a net benefit of $297 million primarily reflecting the impact of rising rates and favorable equity markets. Partial offsets are included in the $67 million of related charges to amortization of DAC and other costs. For the nine months ended September 30, 2018, the net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impacts of NPR, DAC and other costs, was a benefit of $378 million. The net impact from changes in the U.S. GAAP embedded derivative and hedge positions resulted in a net benefit of $786 million primarily reflecting the impacts of credit spread widening coupled with rising rates and favorable equity markets. Partial offsets are included in the $235 million of related charges to amortization of DAC and other costs. The net charge of $173 million resulted from our annual reviews and update of assumptions and other refinements, including updates to expected withdrawal rates, as well as economic assumptions.

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

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

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

101

Table of Contents

As of September 30, 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.

	September 30, 2018		December 31, 2017		September 30, 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)	$112,377	69 %	$114,686	69 %	$112,650	69 %
ALM strategy only	8,607	5 %	9,317	6 %	9,324	6 %
Automatic rebalancing only	880	1 %	1,003	1 %	1,040	1 %
External reinsurance(3)	3,184	2 %	3,227	2 %	3,153	2 %
Prudential Defined Income Variable Annuity	10,813	6 %	9,996	5 %	9,464	5 %
Other products	2,661	2 %	2,791	2 %	2,772	2 %
Total living benefit/GMDB features	$138,522		$141,020		$138,403	
GMDB features and other(4)	23,847	15 %	24,133	15 %	23,704	15 %
Total variable annuity account value	$162,369		$165,153		$162,107	

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(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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Operating results:				

Revenues	$1,454	$1,411	$4,330	$3,510
Benefits and expenses	1,284	1,261	4,081	3,799
Adjusted operating income	170	150	249	(289)
Realized investment gains (losses), net, and related adjustments	(91)	25	(363)	84
Related charges	58	12	151	94
Income (loss) before income taxes and equity in earnings of operating joint ventures	$137	$187	$37	$(111)

102

Table of Contents

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased $20 million, primarily reflecting a more favorable impact from mortality experience, net of reinsurance.

Nine Month Comparison. Adjusted operating income increased $538 million, primarily reflecting favorable comparative net impacts from our annual reviews and update of assumptions and other refinements. Results for 2018 included a $65 million net charge from this annual review, mainly driven by unfavorable impacts related to lapse and mortality rate assumptions. Results for 2017 included a $653 million net charge from this annual review mainly driven by a charge related to modeling refinements as a result of a valuation systems conversion, including a change in the method of accounting for reinsurance associated with certain long-duration insurance contracts, and changes in lapse rate assumptions. Excluding these impacts, adjusted operating income decreased $50 million, primarily reflecting lower underwriting results, driven by the unfavorable ongoing impact of our annual reviews and updates of assumptions and other refinements, and lower income on non-coupon investments, partially offset by less unfavorable mortality experience, net of reinsurance.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased $43 million. This increase was primarily driven by an increase in net investment income from 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, as well as higher premiums driven by continued business growth.

Benefits and expenses, as shown in the table above under “—Operating Results,” increased $23 million. This increase was primarily related to higher reserve financing costs, as discussed above, and higher policyholders’ benefits and interest credited to account balances attributable to continued business growth, partially offset by more favorable mortality experience.

Nine Month Comparison. Revenues increased $820 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased $43 million. This increase was primarily driven by an increase in net investment income from 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, as well as higher premiums driven by continued business growth. These increases were partially offset by lower revenues reflecting higher ceded net reinsurance premiums, as a result of the unfavorable ongoing impact of the second quarter 2017 change in the method of accounting for reinsurance, which was partially offset by related lower benefits and expenses, as discussed below.

Benefits and expenses increased $282 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased $93 million. This increase was primarily related to higher reserve financing costs, as discussed above, higher policyholders’ benefits and interest credited to account balances attributable to continued business growth and increased DAC amortization, partially offset by the favorable ongoing impact of the second quarter 2017 change in the method of accounting for reinsurance, which was more than offset by the related unfavorable impact in revenues, as discussed above.

Table of Contents

Sales Results

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

	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total
	(in millions)					
Term Life	$7	$48	$55	$7	$50	$57
Guaranteed Universal Life(1)	2	21	23	3	28	31
Other Universal Life(1)	12	32	44	10	18	28
Variable Life	14	27	41	9	17	26
Total	$35	$128	$163	$29	$113	$142

	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total
	(in millions)					
Term Life	$21	$137	$158	$22	$138	$160
Guaranteed Universal Life(1)	7	61	68	13	111	124
Other Universal Life(1)	32	67	99	27	55	82
Variable Life	38	67	105	23	52	75
Total	$98	$332	$430	$85	$356	$441

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(1) Single pay life premiums and excess (unscheduled) premiums are included in annualized new business premiums based on a 10% credit and represented approximately 8% and 21% of Guaranteed Universal Life and 0% and 1% of Other Universal Life annualized new business premiums for the three months ended September 30, 2018 and 2017, respectively, and approximately 12% and 17% of Guaranteed Universal Life and 0% and 1% of Other Universal Life annualized new business premiums for the nine months ended September 30, 2018 and 2017, respectively.

Total annualized new business premiums for the third quarter of 2018 increased $21 million compared to the prior year period, primarily driven by higher sales of variable life and other universal life products, partially offset by lower guaranteed universal life sales. Total annualized new business premiums for the first nine months of 2018 decreased $11 million compared to the prior year period, primarily driven by lower guaranteed universal life sales, partially offset by higher sales of variable life and other universal life products. Overall lower guaranteed universal life sales are primarily attributable to certain distribution and product design and pricing actions implemented to enhance product mix diversification and in response to the adoption in 2017 of the principle-based reserving method for new guaranteed universal life products.

International Insurance Division

International Insurance

Business Update

We regularly review our existing international businesses and may seek to deploy capital in support of our strategy or to exit an operation if it is determined that it no longer aligns with our broader international strategy.

104

Table of Contents

- In June 2018, we entered into a definitive agreement to sell our Pramerica of Italy subsidiary. The transaction is expected to close by early 2019, subject to regulatory approvals and customary closing conditions. The results of this divested business and the impact of the anticipated sale are reflected in our Corporate and Other operations (see "—Results of Operations by Segment—Divested Businesses—Divested Businesses Included in Corporate and Other" for additional information).

- As previously disclosed, in January 2018 we entered into a definitive agreement to sell our Pramerica of Poland subsidiary. This transaction closed in October 2018 and will result in a gain that will be recorded in "Other Divested Businesses" in the fourth quarter of 2018 (see "—Results of Operations by Segment—Divested Businesses—Divested Businesses Included in Corporate and Other" for additional information).

Operating Results

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed in "—Results of Operations—Impact of Foreign Currency Exchange Rates" above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations, excluding the effect of foreign currency fluctuations, were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 111 yen per U.S. dollar and Korean won at a rate of 1150 won per U.S. dollar, both of which were determined in connection with the foreign currency income hedging program discussed in "—Results of Operations—Impact of Foreign Currency Exchange Rates" above. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is generally reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the "Sales Results" section below reflect translation based on these same uniform exchange rates.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Operating results:				
Revenues:				
Life Planner operations	$2,696	$2,627	$8,461	$7,982
Gibraltar Life and Other operations	2,794	2,749	8,357	8,286
Total revenues	5,490	5,376	16,818	16,268
Benefits and expenses:				
Life Planner operations	2,247	2,254	7,220	6,872
Gibraltar Life and Other operations	2,353	2,323	7,068	6,975
Total benefits and expenses	4,600	4,577	14,288	13,847
Adjusted operating income:				
Life Planner operations	449	373	1,241	1,110
Gibraltar Life and Other operations	441	426	1,289	1,311
Total adjusted operating income	890	799	2,530	2,421
Realized investment gains (losses), net, and related adjustments	188	332	238	782

Related charges	4	(6)	5	(15)
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	76	56	(12)	111
Change in experience-rated contractholder liabilities due to asset value changes	(76)	(56)	12	(111)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(19)	(15)	(52)	(49)
Income (loss) before income taxes and equity in earnings of operating joint ventures	$1,063	$1,110	$2,721	$3,139

105

Table of Contents

Adjusted Operating Income

Three Month Comparison. Adjusted operating income from our Life Planner operations increased $76 million, including a net favorable impact of $2 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding the impact of currency fluctuations, adjusted operating income increased $74 million, primarily reflecting the growth of business in force in our Japan, Korea and Brazil operations and lower expenses, including lower legal costs. These increases were partially offset by lower net investment results, driven by the impact of lower reinvestment rates, and a less favorable impact from mortality experience.

Adjusted operating income from our Gibraltar Life and Other operations increased $15 million, including a net favorable impact of $1 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding the impact of currency fluctuations, adjusted operating income from our Gibraltar Life and Other operations increased $14 million, primarily reflecting the growth of business in force, driven by higher sales of U.S. dollar-denominated products. This increase was partially offset by a lower contribution from net investment results driven by the impact of lower income on non-coupon investments, lower reinvestment rates and lower prepayment fee income, partially offset by higher average invested assets resulting from continued business growth.

Nine Month Comparison. Adjusted operating income from our Life Planner operations increased $131 million, including a net favorable impact of $4 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a $49 million net charge in 2018 compared to a $67 million net charge in 2017. The net charge in both 2018 and 2017 was primarily driven by the impact from unfavorable economic assumption updates driven by a lower long-term interest rate assumption in Japan. Excluding the effect of these items, adjusted operating income increased $109 million, primarily reflecting the growth of business in force in our Japan, Korea and Brazil operations, and lower expenses, including lower legal costs. These increases were partially offset by lower net investment results, driven by the impact of lower reinvestment rates, and an unfavorable impact from mortality experience.

Adjusted operating income from our Gibraltar Life and Other operations decreased $22 million, including a net favorable impact of $3 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a $32 million net charge in 2018 compared to a $21 million net benefit in 2017. Excluding the effect of these items, adjusted operating income from our Gibraltar Life and Other operations increased $28 million, primarily reflecting the growth of business in force, driven by higher sales of U.S. dollar-denominated products, and a favorable impact from mortality experience. These increases were partially offset by a lower contribution from net investment results driven by the impact of lower income on non-coupon investments, lower reinvestment rates and lower prepayment fee income, partially offset by higher average invested assets resulting from continued business growth.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues from our Life Planner operations increased $69 million, including a net unfavorable impact of $52 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $121 million, primarily driven by higher premiums related to the growth of business in force, as discussed above.

Benefits and expenses of our Life Planner operations decreased $7 million, including a net favorable impact of $54 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased

$47 million. This increase primarily reflects higher policyholders' benefits, including changes in reserves, driven by business growth and a less favorable impact from mortality experience, partially offset by lower general and administrative expenses, net of capitalization, including lower legal costs.

Revenues from our Gibraltar Life and Other operations increased $45 million, including a net unfavorable impact of $5 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $50 million, primarily driven by higher premiums related to the growth of business in force, as discussed above.

Benefits and expenses of our Gibraltar Life and Other operations increased $30 million, including a net favorable impact of $6 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $36 million, driven by an increase in policyholders' benefits, including changes in reserves, driven by business growth.

Table of Contents

Nine Month Comparison. Revenues from our Life Planner operations increased $479 million, including a net favorable impact of $64 million from currency fluctuations and a net benefit of $3 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues increased $412 million, primarily driven by higher premiums and policy charges and fee income related to the growth of business in force, as discussed above.

Benefits and expenses of our Life Planner operations increased $348 million, including a net unfavorable impact of $60 million from currency fluctuations and a net benefit of $15 million from our annual review and update of assumptions and other refinements. Excluding these items, benefits and expenses increased $303 million. This increase primarily reflects higher policyholders' benefits, including changes in reserves, driven by business growth and an unfavorable impact from mortality experience, partially offset by lower general and administrative expenses, net of capitalization, including lower legal costs.

Revenues from our Gibraltar Life and Other operations increased $71 million, including a net favorable impact of $100 million from currency fluctuations and a net charge of $13 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues decreased $16 million.

Benefits and expenses of our Gibraltar Life and Other operations increased $93 million, including a net unfavorable impact of $97 million from currency fluctuations and a net charge of $40 million from our annual review and update of assumptions and other refinements. Excluding these items, benefits and expenses decreased $44 million, primarily driven by a decrease in policyholders' benefits, including changes in reserves, related to a favorable impact from mortality experience, as discussed above.

Sales Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Annualized new business premiums:				
On an actual exchange rate basis:				
Life Planner operations	$294	$277	$941	$1,098
Gibraltar Life(1)	351	403	1,157	1,243
Total(1)	$645	$680	$2,098	$2,341
On a constant exchange rate basis:				
Life Planner operations	$299	$270	$931	$1,087
Gibraltar Life(1)	350	403	1,154	1,246
Total(1)	$649	$673	$2,085	$2,333

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

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

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

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

107

Table of Contents

	Three Months Ended September 30, 2018					Three Months Ended September 30, 2017				
	Life	Accident & Health	Retirement(1)	Annuity	Total	Life	Accident & Health	Retirement(1)	Annuity	Total
	(in millions)									
Life Planner	$168	$ 29	$ 80	$ 22	$299	$153	$ 29	$ 68	$ 20	$270
Gibraltar Life(2):										
Life Consultants	$82	$ 11	$ 24	$ 60	$177	$84	$ 12	$ 28	$ 54	$178
Banks(3)	106	1	7	8	122	157	0	8	13	178
Independent Agency	26	2	15	8	51	26	2	14	5	47
Subtotal	214	14	46	76	350	267	14	50	72	403
Total(2)	$382	$ 43	$ 126	$ 98	$649	$420	$ 43	$ 118	$ 92	$673

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

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

(3) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 0% and 70%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended September 30, 2018, and 4% and 71%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended September 30, 2017.

Three Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $29 million, as the increase in sales of U.S. dollar-denominated products, primarily term life products, more than offset the decline in sales of yen-based products in our Japan operations.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations decreased $53 million primarily reflecting bank channel sales decreases partially offset by independent agency sales increases. Bank channel sales decreased $56 million, primarily from lower sales of U.S. dollar-denominated life products due to increased competition in recurring pay life products and the discontinuation of a single pay life product in the fourth quarter of 2017. Independent agency sales increased $4 million, primarily from higher sales of U.S. dollar-denominated products.

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

	Nine Months Ended September 30, 2018					Nine Months Ended September 30, 2017				
	Life	Accident & Health	Retirement(1)	Annuity	Total	Life	Accident & Health	Retirement(1)	Annuity	Total
	(in millions)									
Life Planner	$513	$ 86	$ 263	$ 69	$931	$648	$ 93	$ 282	$ 64	$1,087
Gibraltar Life(2):										
Life Consultants	$229	$ 33	$ 78	$ 266	$606	$286	$ 39	$ 85	$ 166	$576
Banks(3)	330	1	21	32	384	406	0	24	49	479
Independent Agency	84	9	48	23	164	109	17	48	17	191
Subtotal	643	43	147	321	1,154	801	56	157	232	1,246

Total(2)	$1,156	$ 129	$ 410	$ 390	$2,085	$1,449	$ 149	$ 439	$ 296	$2,333

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

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

(3) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 0% and 72%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the nine months ended September 30, 2018, and 5% and 64%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the nine months ended September 30, 2017.

Nine Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased $156 million, primarily reflecting accelerated sales in our Japan operations in the prior year period in advance of premium rate increases on yen-based products in the second quarter of 2017 and lower sales of these yen-based products post repricing. The decrease was partially offset by higher sales of U.S. dollar-denominated products in our Japan operations.

108

Table of Contents

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations decreased $92 million. Life Consultants sales increased $30 million, primarily reflecting higher sales of U.S. dollar-denominated annuity products, and higher sales of U.S. dollar-denominated life products resulting from the introduction of a new recurring pay life product in the second quarter of 2017. The increase was partially offset by lower sales of yen-denominated life products after the second quarter of 2017 repricing discussed above. Bank channel sales decreased $95 million, primarily from lower sales of U.S. dollar-denominated life products due to increased competition in recurring pay life products and the discontinuation of a single pay life product in the fourth quarter of 2017. Independent Agency sales decreased $27 million, primarily reflecting lower sales of yen-denominated life products after the second quarter of 2017 repricing discussed above and increased competition, partially offset by higher sales of U.S. dollar-denominated life and annuity products.

Corporate and Other

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Operating results:				
Capital debt interest expense	$(178)	$(178)	$(531)	$(522)
Investment income, net of operating debt interest expense	7	25	43	68
Pension and employee benefits	59	43	155	116
Other corporate activities(1)	(262)	(200)	(621)	(636)
Adjusted operating income	(374)	(310)	(954)	(974)
Realized investment gains (losses), net, and related adjustments	119	(100)	347	(375)
Related charges	4	6	8	(21)
Divested Businesses	12	10	(1,586)	51
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(2)	(7)	1	(16)
Income (loss) before income taxes and equity in earnings of operating joint ventures	$(241)	$(401)	$(2,184)	$(1,335)

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(1) Includes consolidating adjustments.

Three Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $64 million. Net charges from other corporate activities increased $62 million, primarily reflecting increased expenses related to corporate initiatives, higher costs for employee compensation plans tied to Company stock performance and increases in other corporate costs. Results for investment income, net of operating debt interest expense, decreased $18 million, including lower net investment income driven by transfers of investments in the second quarter of 2018 to support higher capital requirements in the Long-Term Care Divested Business. This decrease was partially offset by higher income on highly liquid assets. Results from pension and employee benefits increased $16 million, including higher income from our qualified pension plan from higher expected earnings on plan assets and lower interest costs on the plan obligation driven by the decline in interest rates in 2017.

109

Table of Contents

Nine Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased $20 million. Results from pension and employee benefits increased $39 million, including higher income from our qualified pension plan from higher expected earnings on plan assets and lower interest costs on the plan obligation driven by the decline in interest rates in 2017. Net charges from other corporate activities decreased $15 million, including lower costs for employee compensation plans tied to Company stock performance, partially offset by increased expenses related to corporate initiatives. Results for investment income, net of operating debt interest expense, decreased $25 million, including lower net investment income driven by transfers of investments in the second quarter of 2018 to support higher capital requirements in the Long-Term Care Divested Business and the absence of a non-coupon investment gain in the prior year period. This decrease was partially offset by higher income on highly liquid assets and lower operating debt interest expense. Capital debt interest expense increased $9 million, reflecting higher debt balances from debt issuances in the third quarter of 2017 and the first and third quarters of 2018, partially offset by the extinguishment of junior subordinated debt in the second quarter of 2018 and a senior debt maturity in the fourth quarter of 2017.

Divested Businesses

Divested Businesses Included in Corporate and Other

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Long-Term Care	$14	$ 10	$(1,484)	$53
Other	(2)	0	(102)	(2)
Total Divested Businesses income (loss) excluded from adjusted operating income	$12	$ 10	$(1,586)	$51

Long-Term Care. Results for the third quarter of 2018 increased compared to the prior year period, primarily driven by an increase in the market value of investments in equity securities which, effective January 1, 2018 as a result of ASU 2016-01, are reported in net income as opposed to other comprehensive income. The increase was partially offset by higher net realized investment losses in the current period driven by a decline in the market values of derivatives used for duration management. Results for the first nine months of 2018 decreased compared to the prior year period, primarily reflecting unfavorable comparative net impacts from our annual reviews and update of assumptions and other refinements. Results for 2018 include a $1,458 million net charge from these updates including the removal of our assumption of expected future morbidity improvement, reflecting unfavorable morbidity experience relative to prior expectations. For additional information about our Long-Term Care in-force and reserves, see "MD&A—Results of Operations by Segment—Divested Businesses—Divested Businesses Included in Corporate and Other" included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2018. Excluding these impacts, results for the first nine months of 2018 decreased compared to the prior year period, primarily reflecting net realized investment losses in the current period compared to net realized investment gains in the prior year period driven by an unfavorable comparative change in market values of derivatives used for duration management, partially offset by an increase in the market value of investments in equity securities in the current period, as discussed above.

Other. Results for the first nine months of 2018 decreased in comparison to the prior year period primarily reflecting losses related to the anticipated sale of our Pramerica of Italy subsidiary and the exit of our PGIM Brazil operations (see "—Results of Operations by Segment—International Insurance Division—International Insurance" and "—Results of Operations by Segment—PGIM Division—PGIM" for additional information).

As previously disclosed, in January 2018 we entered into a definitive agreement to sell our Pramerica of Poland subsidiary. This transaction closed in October 2018 and will result in a gain that will be recorded in "Other Divested Businesses" in the fourth quarter of 2018.

110

Table of Contents

Closed Block Division

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

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

As of September 30, 2018, the excess of actual cumulative earnings over the expected cumulative earnings was $2,676 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $829 million at September 30, 2018, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
U.S. GAAP results:				
Revenues	$1,249	$1,376	$3,800	$4,382
Benefits and expenses	1,231	1,343	3,822	4,333
Income (loss) before income taxes and equity in earnings of operating joint ventures	$18	$33	$(22)	$49

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

Three Month Comparison. Income before income taxes and equity in earnings of operating joint ventures decreased $15 million. Net investment income decreased $106 million, primarily driven by lower income on non-coupon investments, lower prepayment income and lower reinvestment yields. Net insurance activity results increased $60 million, primarily due to a decrease in the 2018 dividend scale and runoff of policies in force. Net realized investment gains and related activity increased $28 million, primarily due to favorable changes in the value of equity securities

included in “Other income,” and derivatives used in risk management activities, partially offset by losses from sales of fixed maturities. As a result of the above and other variances, a $9 million reduction in the policyholder dividend obligation was recorded in the third quarter of 2018, compared to a $13 million reduction in the third quarter of 2017. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block division, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation. For a discussion of Closed Block division realized investment gains (losses), net, see “—General Account Investments.”

111

Table of Contents

Nine Month Comparison. Income before income taxes and equity in earnings of operating joint ventures decreased $71 million. Net investment income decreased $239 million, primarily driven by lower income on non-coupon investments, lower reinvestment yields and lower prepayment income. Net realized investment gains and related activity decreased $171 million primarily due to lower gains on equity securities included in “Other income,” and lower gains from sales of fixed maturities, partially offset by favorable changes in the value of derivatives used in risk management activities. Net insurance activity results increased $172 million, primarily due to a decrease in the 2018 dividend scale and runoff of policies in force. As a result of the above and other variances, an $84 million reduction in the policyholder dividend obligation was recorded in the first nine months of 2018, compared to a $64 million increase in the first nine months of 2017.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—U.S. GAAP results,” decreased $127 million, primarily due to decreases of $106 million in net investment income, as discussed above, as well as a $49 million decrease in premiums due to runoff of policies in force. Partially offsetting these decreases was a net increase of $28 million in net realized investment gains and other income, as discussed above.

Benefits and expenses, as shown in the table above under “—U.S. GAAP results,” decreased $112 million, primarily due to a $56 million decrease in policyholder dividend expense driven by a decrease in the 2018 dividend scale. In addition, policyholders’ benefits, including changes in reserves, decreased $52 million, primarily due to the runoff of policies in force, as discussed above.

Nine Month Comparison. Revenues decreased $582 million, primarily due to a net decrease of $171 million in net realized investment gains and other income and a $239 million decrease in net investment income, as discussed above, as well as a $172 million decrease in premiums due to the runoff of policies in force.

Benefits and expenses decreased $511 million, primarily due to a $304 million decrease in dividends to policyholders, reflecting a decrease in the policyholder dividend expense driven by a decrease in the 2018 dividend scale as well as changes in cumulative earnings. In addition, policyholders’ benefits, including changes in reserves, decreased $189 million, primarily due to the runoff of policies in force, as discussed above.

Income Taxes

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

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

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

for losses, and are reflected on the Unaudited Interim Consolidated Statements of Financial Position as “Commercial mortgage and other loans.” Gains (losses) on sales and changes in the valuation allowance for commercial mortgage and other loans are reported in “Realized investment gains (losses), net.”

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

Table of Contents

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

Adjusted operating income excludes net investment gains (losses) on assets supporting experience-rated contractholder liabilities, related derivatives and commercial mortgage and other loans. This is consistent with the exclusion of realized investment gains (losses) with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains (losses) on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in "Interest credited to policyholders' account balances." The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Retirement Segment:				
Investment gains (losses) on:				
Assets supporting experience-rated contractholder liabilities, net	$(66)	$29	$(574)	$219
Derivatives	8	(51)	48	(136)
Commercial mortgages and other loans	6	(5)	9	(6)
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	55	25	470	(77)
Net gains (losses)	$3	$(2)	$(47)	$0
International Insurance Segment:				
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	$76	$56	$(12)	$111
Change in experience-rated contractholder liabilities due to asset value changes	(76)	(56)	12	(111)
Net gains (losses)	$0	$0	$0	$0
Total:				
Investment gains (losses) on:				
Assets supporting experience-rated contractholder liabilities, net	$10	$85	$(586)	$330
Derivatives	8	(51)	48	(136)
Commercial mortgages and other loans	6	(5)	9	(6)
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(21)	(31)	482	(188)
Net gains (losses)	$3	$(2)	$(47)	$0

(1) Decreases to contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of $132 million and $9 million as of September 30, 2018 and 2017, respectively. We have recovered and expect to recover in future periods these declines in recorded asset

values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

(2) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are decreases of $9 million and $8 million for the three months ended September 30, 2018 and 2017, respectively, and decreases of $40 million and $3 million for the nine months ended September 30, 2018 and 2017, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

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

113

Table of Contents

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

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

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

	As of September 30, 2018				As of December 31, 2017			
	PFI excluding Closed Block Division		Closed Block Division		PFI excluding Closed Block Division		Closed Block Division	
	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)
	(in millions)							
Fixed maturities, available-for-sale	$301,764	$ 3,009	$39,206	$ 924	$305,518	$ 7,557	$41,262	$ 2,139
Assets supporting experience-rated contractholder liabilities:								
Fixed maturities	19,204	703	0	0	20,209	1,408	0	0
Equity securities	1,685	2	0	0	1,643	4	0	0
All other(2)	60	3	0	0	137	7	0	0
Subtotal	20,949	708	0	0	21,989	1,419	0	0
Fixed maturities, trading	2,882	184	201	2	3,307	155	200	1
Equity securities	4,775	631	2,146	80	4,855	712	2,479	83
Commercial mortgage and other loans	401	0	0	0	593	0	0	0
Other invested assets(3)	921	117	0	0	1,330	137	2	0
Short-term investments	4,902	5	63	1	5,351	8	436	0
Cash equivalents	4,449	0	300	0	7,722	0	577	0
Other assets	0	0	0	0	14	13	0	0
Separate account assets	277,846	1,637	0	0	280,393	2,122	0	0
Total assets	$618,889	$ 6,291	$41,916	$ 1,007	$631,072	$ 12,123	$44,956	$ 2,223
Future policy benefits	$5,231	$ 5,231	$0	$ 0	$8,720	$ 8,720	$0	$ 0
Other liabilities(3)	825	136	0	0	688	50	0	0
Notes issued by consolidated variable interest entities	610	610	0	0	1,196	1,196	0	0

("VIEs")								
Total liabilities	$6,666	$ 5,977	$0	$ 0	$10,604	$ 9,966	$0	$ 0

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(1) Level 3 assets expressed as a percentage of total assets measured at fair value on a recurring basis for PFI excluding the Closed Block division and for the Closed Block division totaled 1.0% and 2.4%, respectively, as of September 30, 2018, and 1.9% and 4.9%, respectively, as of December 31, 2017.

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

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

114

Table of Contents

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

Fixed Maturity and Equity Securities

Fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or indicative broker quotes. For certain private fixed maturity and equity securities, the internal valuation models use significant unobservable inputs and, accordingly, such securities are included in Level 3 in our fair value hierarchy. Level 3 fixed maturity securities for PFI excluding the Closed Block division included approximately $1.8 billion of public fixed maturities as of September 30, 2018, with values primarily based on indicative broker quotes, and approximately $2.1 billion of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific spread adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. These inputs are usually considered unobservable, as not all market participants have access to this data.

The Company’s determination to classify assets and liabilities within Level 3 is based on significance of the unobservable inputs in the overall fair value measurement. Periodically, transfers between levels are made to reflect changes in observability of inputs and market activity. During the second quarter of 2018, $5,078 million of investments in collateralized loan obligations (“CLOs”) reported as “Asset-backed securities” were transferred from Level 3 to Level 2 as market activity, liquidity and overall observability of valuation inputs of CLOs has increased. All transfers are generally reported at the value as of the beginning of the quarter in which transfers occur for any such assets still held at the end of the quarter.

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

Separate Account Assets

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

Variable Annuity Living Benefit Features

Future policy benefits classified in Level 3 primarily include liabilities related to guarantees associated with the living benefit features of certain variable annuity contracts offered by our Individual Annuities segment, including guaranteed minimum accumulation benefits (“GMAB”), guaranteed minimum withdrawal benefits (“GMWB”) and

guaranteed minimum income and withdrawal benefits (“GMIWB”). These benefits are accounted for as embedded derivatives and carried at fair value with changes in fair value included in “Realized investment gains (losses), net.” The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of future rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, based on capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. These models utilize significant assumptions that are primarily unobservable, including assumptions as to lapse rates, NPR, utilization rates, withdrawal rates, mortality rates and equity market volatility. Future policy benefits classified as Level 3 for PFI excluding the Closed Block division were a net liability of $5.2 billion as of September 30, 2018. For additional information, see “—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities.”

115

Table of Contents

Notes Issued by Consolidated VIEs

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

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

General Account Investments

Portfolio Composition

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

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

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

	September 30, 2018			
	PFI Excluding Closed Block Division		Closed Block Division	Total
	($ in millions)			
Fixed maturities:				
Public, available-for-sale, at fair value	$257,178	64.1 %	$ 26,377	$283,555
Public, held-to-maturity, at amortized cost	1,699	0.4	0	1,699
Private, available-for-sale, at fair value	44,131	11.0	12,828	56,959
Private, held-to-maturity, at amortized cost	258	0.1	0	258
Fixed maturities, trading, at fair value	1,731	0.4	201	1,932
Assets supporting experience-rated contractholder liabilities, at fair value	21,083	5.2	0	21,083
Equity securities, at fair value	4,301	1.1	2,146	6,447
Commercial mortgage and other loans, at book value	49,980	12.4	8,915	58,895
Policy loans, at outstanding balance	7,490	1.9	4,438	11,928
Other invested assets(1)	8,172	2.0	3,345	11,517
Short-term investments	5,633	1.4	108	5,741
Total general account investments	401,656	100.0%	58,358	460,014
Invested assets of other entities and operations(2)	4,958		0	4,958

Total investments	$406,614	$ 58,358	$464,972

116

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

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

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

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

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

As of September 30, 2018 and December 31, 2017, 43% and 42%, respectively, of our general account investments attributable to PFI excluding the Closed Block division related to our Japanese insurance operations. The following table sets forth the composition of the investments of our Japanese insurance operations' general account, as of the dates indicated:

	September 30, 2018	December 31, 2017
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	$127,189	$128,332
Public, held-to-maturity, at amortized cost	1,699	1,747
Private, available-for-sale, at fair value	15,547	14,538
Private, held-to-maturity, at amortized cost	258	302
Fixed maturities, trading, at fair value	296	257

Assets supporting experience-rated contractholder liabilities, at fair value	2,575	2,586
Equity securities, at fair value	2,155	2,151
Commercial mortgage and other loans, at book value	16,823	14,268
Policy loans, at outstanding balance	2,604	2,545
Other invested assets(1)	1,830	2,021
Short-term investments	226	244
Total Japanese general account investments(2)	$171,202	$168,991

117

(1) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments.

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

The increase in general account investments related to our Japanese insurance operations in the first nine months of 2018 was primarily attributable to the reinvestment of net investment income and net business inflows, partially offset by the impact of the rise in U.S. Treasury and Japanese Government Bond rates and the translation impact of the yen weakening against the U.S. dollar.

As of September 30, 2018, our Japanese insurance operations had $63.2 billion, at carrying value, of investments denominated in U.S. dollars, including $2.6 billion that were hedged to yen through third-party derivative contracts and $48 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. As of December 31, 2017, our Japanese insurance operations had $62.6 billion, at carrying value, of investments denominated in U.S. dollars, including $5.8 billion that were hedged to yen through third-party derivative contracts and $43.8 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. The $0.6 billion increase in the carrying value of U.S. dollar-denominated investments from December 31, 2017 was primarily attributable to portfolio growth as a result of net business inflows and the reinvestment of net investment income, partially offset by the reduction of the U.S. dollar investments hedged back to yen through third-party derivatives.

Our Japanese insurance operations had $10.3 billion and $11.4 billion, at carrying value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of September 30, 2018 and December 31, 2017, respectively. The $1.1 billion decrease in the carrying value of Australian dollar-denominated investments from December 31, 2017 was primarily attributable to the translation impact of the Australian dollar weakening against the U.S. dollar and portfolio reduction as a result of net business outflows. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations and a discussion of our yen hedging strategy, see "—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

Investment Results

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

2018 to 2017 Three Month Comparison

	Three Months Ended September 30, 2018							
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
	($ in millions)							
Fixed maturities(2)	4.63 %	$1,746	2.90 %	$925	3.83 %	$2,671	$ 415	$3,086
Assets supporting experience-rated contractholder liabilities	3.51	164	2.08	13	3.34	177	0	177
Equity securities	4.05	21	2.13	12	3.09	33	10	43
Commercial mortgage and other loans	3.94	325	3.84	158	3.90	483	99	582
Policy loans	5.33	64	3.92	25	4.84	89	65	154
Short-term investments and cash equivalents	2.50	68	3.47	9	2.56	77	6	83
Gross investment income	4.34	2,388	2.99	1,142	3.78	3,530	595	4,125
Investment expenses	(0.16)	(100)	(0.13)	(61)	(0.15)	(161)	(50)	(211)
Investment income after investment expenses	4.18 %	2,288	2.86 %	1,081	3.63 %	3,369	545	3,914
Other invested assets(3)		60		26		86	15	101
Investment results of other entities and operations(4)		31		0		31	0	31
Total investment income		$2,379		$1,107		$3,486	$ 560	$4,046

	Three Months Ended September 30, 2017							
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
	($ in millions)							
Fixed maturities(2)	4.52 %	$1,608	3.01 %	$918	3.82 %	$2,526	$ 446	$2,972
Assets supporting experience-rated contractholder liabilities	3.52	172	2.22	14	3.38	186	0	186
Equity securities	5.01	64	3.22	23	4.38	87	12	99
Commercial mortgage and other loans	4.06	324	3.91	130	4.02	454	112	566
Policy loans	5.29	62	3.97	24	4.83	86	67	153
Short-term investments and cash equivalents	1.30	40	1.15	3	1.29	43	6	49
Gross investment income	4.26	2,270	3.11	1,112	3.79	3,382	643	4,025
Investment expenses	(0.15)	(83)	(0.12)	(48)	(0.14)	(131)	(47)	(178)
Investment income after investment expenses	4.11 %	2,187	2.99 %	1,064	3.65 %	3,251	596	3,847
Other invested assets(3)		78		27		105	70	175
Investment results of other entities and operations(4)		54		0		54	0	54
Total investment income		$2,319		$1,091		$3,410	$ 666	$4,076

(1) For interim periods, yields are annualized. The denominator in the yield percentage is based on quarterly average carrying values for all asset types except for fixed maturities which are based on amortized cost. Amounts for fixed

maturities, short-term investments and cash equivalents are also netted for securities lending activity (i.e., income netted for rebate expenses and asset values netted for securities lending liabilities). A yield is not presented for other invested assets as it is not considered a meaningful measure of investment performance. Yields exclude investment income and assets related to other invested assets. Prior period yields have been revised to conform to current period presentation.

119

(2) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading, which are included in other invested assets.
(3) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments, fixed maturities designated as trading and other miscellaneous investments.
(4) Includes net investment income of our investment management operations.
(5) The total yield was 3.74% and 3.79% for the three months ended September 30, 2018 and 2017, respectively. Prior period yield has been revised to conform to current period presentation.

The increase in investment income after investment expenses yield attributable to our general account investments, excluding both the Closed Block division and the Japanese insurance operations' portfolio, for the three months ended September 30, 2018, compared to the three months ended September 30, 2017, was primarily the result of higher fixed income reinvestment rates.

The decrease in investment income after investment expenses yield on the Japanese insurance operations' portfolio, for the three months ended September 30, 2018, compared to the three months ended September 30, 2017, was primarily attributable to lower fixed income reinvestment rates and lower fixed maturity prepayment fees and call premiums.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately $43.6 billion and $42.6 billion for the three months ended September 30, 2018 and 2017, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately $9.5 billion and $10.6 billion for the three months ended September 30, 2018 and 2017, respectively. The Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see "—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

2018 to 2017 Nine Month Comparison

	Nine Months Ended September 30, 2018							
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
	($ in millions)							
Fixed maturities(2)	4.67 %	$5,195	2.93 %	$2,770	3.87 %	$7,965	$ 1,272	$9,237
Assets supporting experience-rated contractholder liabilities	3.64	511	1.99	38	3.44	549	0	549
Equity securities	2.49	40	3.09	50	2.79	90	34	124
Commercial mortgage and other loans	4.00	972	3.92	457	3.98	1,429	307	1,736
Policy loans	5.38	192	3.91	75	4.86	267	195	462
Short-term investments and cash equivalents	2.03	183	2.41	26	2.06	209	23	232
Gross investment income	4.35	7,093	3.04	3,416	3.81	10,509	1,831	12,340
Investment expenses	(0.17)	(285)	(0.13)	(174)	(0.15)	(459)	(151)	(610)
	4.18 %	6,808	2.91 %	3,242	3.66 %	10,050	1,680	11,730

Investment income after investment expenses					
Other invested assets(3)	180	86	266	64	330
Investment results of other entities and operations(4)	80	0	80	0	80
Total investment income	$7,068	$3,328	$10,396	$1,744	$12,140

120

	Nine Months Ended September 30, 2017							
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
	($ in millions)							
Fixed maturities(2)	4.57 %	$4,790	3.05 %	$2,704	3.88 %	$7,494	$ 1,315	$8,809
Assets supporting experience-rated contractholder liabilities	3.60	523	2.00	35	3.43	558	0	558
Equity securities	5.28	195	2.75	59	4.35	254	40	294
Commercial mortgage and other loans	4.08	954	4.07	380	4.07	1,334	343	1,677
Policy loans	5.38	187	3.98	72	4.90	259	202	461
Short-term investments and cash equivalents	1.23	107	1.33	10	1.24	117	19	136
Gross investment income	4.30	6,756	3.14	3,260	3.84	10,016	1,919	11,935
Investment expenses	(0.14)	(226)	(0.12)	(135)	(0.13)	(361)	(132)	(493)
Investment income after investment expenses	4.16 %	6,530	3.02 %	3,125	3.71 %	9,655	1,787	11,442
Other invested assets(3)		363		100		463	196	659
Investment results of other entities and operations(4)		125		0		125	0	125
Total investment income		$7,018		$3,225		$10,243	$ 1,983	$12,226

(1) For interim periods, yields are annualized. The denominator in the yield percentage is based on quarterly average carrying values for all asset types except for fixed maturities which are based on amortized cost. Amounts for fixed maturities, short-term investments and cash equivalents are also netted for securities lending activity (i.e., income netted for rebate expenses and asset values netted for securities lending liabilities). A yield is not presented for other invested assets as it is not considered a meaningful measure of investment performance. Yields exclude investment income and assets related to other invested assets. Prior period yields have been revised to conform to current period presentation.

(2) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading, which are included in other invested assets.

(3) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments, fixed maturities designated as trading and other miscellaneous investments.

(4) Includes net investment income of our investment management operations.

(5) The total yield was 3.77% and 3.84% for the nine months ended September 30, 2018 and 2017, respectively. Prior period yield has been revised to conform to current period presentation.

The increase in investment income after investment expenses yield attributable to our general account investments, excluding both the Closed Block division and the Japanese insurance operations’ portfolio, for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017, was primarily the result of higher fixed income reinvestment rates.

The decrease in investment income after investment expenses yield on the Japanese insurance operations’ portfolio, for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017, was primarily attributable to lower fixed income reinvestment rates and lower fixed maturity prepayment fees and call premiums.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately $43.8 billion and $41.2 billion for the nine months ended September 30, 2018 and 2017, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately $9.9 billion and $10.5 billion for the nine months ended September 30, 2018 and 2017, respectively. The Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see "—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

Realized Investment Gains and Losses

121

The following table sets forth "Realized investment gains (losses), net," by investment type of our general account apportioned between PFI excluding Closed Block division and the Closed Block division as well as related charges and adjustments, for the periods indicated:

122

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
PFI excluding Closed Block Division:				
Realized investment gains (losses), net:				
Due to foreign exchange movements on securities approaching maturity	$0	$(10)	$(16)	$(34)
Due to securities actively marketed for sale	1	(5)	(10)	(11)
Due to credit or adverse conditions of the respective issuer(1)	(24)	(3)	(63)	(38)
OTTI losses on fixed maturities recognized in earnings(2)	(23)	(18)	(89)	(83)
Net gains (losses) on sales and maturities	111	166	426	545
Fixed maturity securities(3)	88	148	337	462
OTTI losses on equity securities recognized in earnings(4)	0	(12)	0	(20)
Net gains (losses) on sales and maturities	0	247	0	329
Equity securities(5)	0	235	0	309
Commercial mortgage and other loans	2	(1)	(12)	(6)
Derivative instruments	62	1,121	688	(280)
OTTI losses on other invested assets recognized in earnings(6)	0	(4)	(6)	(12)
Other net gains (losses)	(2)	3	77	11
Other	(2)	(1)	71	(1)
Subtotal	150	1,502	1,084	484
Investment results of other entities and operations(7)	5	(1)	73	(3)
Total — PFI excluding Closed Block Division	155	1,501	1,157	481
Related adjustments	116	(106)	(406)	(529)
Realized investment gains (losses), net, and related adjustments	271	1,395	751	(48)
Related charges	(94)	(231)	(233)	571
Realized investment gains (losses), net, and related charges and adjustments	$177	$1,164	$518	$523
Closed Block Division:				
Realized investment gains (losses), net:				
Due to foreign exchange movements on securities approaching maturity	$(1)	$(2)	$(23)	$(15)
Due to securities actively marketed for sale	(6)	(2)	(8)	(9)
Due to credit or adverse conditions of the respective issuer(1)	(2)	0	(9)	(15)
OTTI losses on fixed maturities recognized in earnings(2)	(9)	(4)	(40)	(39)
Net gains (losses) on sales and maturities	(3)	84	22	208
Fixed maturity securities(3)	(12)	80	(18)	169
OTTI losses on equity securities recognized in earnings(4)	0	0	0	(3)
Net gains (losses) on sales and maturities	0	81	0	430
Equity securities(5)	0	81	0	427
Commercial mortgage and other loans	0	(1)	(2)	1
Derivative instruments	8	(53)	121	(125)
OTTI losses on other invested assets recognized in earnings(6)	0	(3)	(1)	(12)
Other net gains (losses)	0	3	4	2
Other	0	0	3	(10)
Subtotal — Closed Block Division	(4)	107	104	462
Consolidated PFI realized investment gains (losses), net	$151	$1,608	$1,261	$943

(1) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused or will lead to a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(2) Excludes the portion of OTTI recorded in OCI, representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(3) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading.
(4) Effective January 1, 2018, the identification of OTTI for equity securities is no longer needed as all of these investments are now measured at fair value with changes in fair value reported in earnings.
(5) Effective January 1, 2018, realized gains (losses) on equity securities are recorded within "Other income."
(6) Primarily includes OTTI related to investments in LPs/LLCs and real estate held through direct ownership.
(7) Includes "realized investment gains (losses), net" of our investment management operations.

Three Month Comparison. Net realized gains on sales and maturities of fixed maturity securities were $111 million and $166 million for the third quarter of 2018 and 2017, respectively, primarily driven by the impact of foreign currency exchange rate movements of U.S. and Australian dollar-denominated securities that matured or were sold within our International Insurance segment.

Net realized gains on derivatives were $62 million for the third quarter of 2018, compared to net realized gains of $1,121 million in the third quarter of 2017. The net derivative gains in the third quarter of 2018 primarily reflected $257 million of gains on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts; $138 million of gains on foreign currency derivatives used to hedge foreign-denominated investments as the U.S. dollar strengthened against various currencies; and net gains of $37 million primarily representing the fees earned on fee-based synthetic guaranteed investment contracts ("GICs"), which are accounted for as derivatives. Partially offsetting these gains were net losses of $294 million on interest rate derivatives used to manage duration as swap rates and U.S. Treasury rates increased; and net losses of $75 million on currency derivatives primarily in Japanese insurance operations used to hedge non-yen denominated investments as the Japanese yen weakened against various currencies. The net derivative gains in the third quarter of 2017 primarily reflected $1,294 million of gains on product related embedded derivatives and related hedges mainly associated with certain variable annuity contracts; and $37 million of gains primarily representing the fees earned on fee-based GICs which are accounted for as derivatives. Partially offsetting these gains were net losses of $158 million on foreign currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened against various currencies; and losses of $93 million on equity futures and options as the equity index increased. For a discussion of living benefit guarantees and related hedge positions in our Individual Annuities segment, see "—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities" above.

Related adjustments include the portion of "Realized investment gains (losses), net" that are included in adjusted operating income and the portion of "Other income" and "Net investment income" that are excluded from adjusted operating income. These adjustments are made to arrive at "Realized investment gains (losses), net, and related adjustments" which are excluded from adjusted operating income. Results for the third quarter of 2018 reflected related adjustments of net positive $116 million compared to net negative $106 million for the third quarter of 2017. Both periods' results were driven by settlements and changes in values of interest rate and currency derivatives. Additionally, the results for the third quarter of 2018 were also driven by the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities within the International Insurance segment, for which the majority of the foreign currency exposure is hedged and offset in "Realized Investment gains (losses), net," as well as the change in fair value of equity securities which is recorded within "Other income."

Charges that relate to "Realized investment gains (losses), net" are also excluded from adjusted operating income and may be reflected as net charges or net benefits. Results for the third quarter of 2018 and 2017 included net related charges of $94 million and $231 million, respectively. Both periods' results were driven by the impact of derivative activity on the amortization of DAC, other costs and certain policyholder reserves.

Nine Month Comparison. Net realized gains on sales and maturities of fixed maturity securities were $426 million and $545 million for the first nine months of 2018 and 2017, respectively, primarily driven by the impact of foreign currency exchange rate movements of U.S. and Australian dollar-denominated securities that matured or were sold within our International Insurance segment.

Net realized gains on derivatives were $688 million in the first nine months of 2018, compared to net realized losses of $280 million in the first nine months of 2017. The net derivative gains in the first nine months of 2018 reflected gains of $1,057 million on product-related embedded derivatives and related hedges mainly associated with certain variable annuity contracts; net gains of $318 million on foreign currency derivatives used to hedge foreign-denominated investments as the U.S. dollar strengthened against various currencies; and net gains of $113 million primarily representing the fees earned on fee-based synthetic GICs, which are accounted for as derivatives. Partially offsetting these gains were net losses of $745 million on interest rate derivatives used to manage duration as swap rates and U.S. Treasury rates increased. The net derivative losses in the first nine months of 2017

124

reflected $443 million of losses on product related embedded derivatives and related hedges mainly associated with certain variable annuity contracts; $352 million of losses on foreign currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened against various currencies; and losses of $93 million on equity futures and options as the equity index increased. Partially offsetting these losses were net gains of $294 million on interest rate derivatives used to manage duration as swap rates and U.S. Treasury rates declined; net gains of $117 million on currency derivatives primarily in Japan operations used to hedge non-yen denominated investments as the Japanese yen strengthened against various currencies; and net gains of $116 million primarily representing the fees earned on fee-based GICs which are accounted for as derivatives. For a discussion of living benefit guarantees and related hedge positions in our Individual Annuities segment, see "—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities" above.

Results for the first nine months of 2018 and 2017 included net negative related adjustments of $406 million and $529 million, respectively. Both periods' results were driven by settlements and changes in values of interest rate and currency derivatives, as well as the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities within the International Insurance segment, for which the majority of the foreign currency exposure is hedged and offset in "Realized Investment gains (losses), net."

Results for the first nine months of 2018 included a net related charge of $233 million, compared to a net related benefit of $571 million for the first nine months of 2017. Both periods' results were driven by the impact of derivative activity on the amortization of DAC, and other costs and certain policyholder reserves.

Impairments

The level of OTTI generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of OTTI have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. We may also realize additional credit and interest rate-related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish "checks and balances" for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our public and private fixed maturity investment managers formally review all public and private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances and/or company or industry-specific concerns.

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

Retail-Related Investments

As of September 30, 2018, PFI excluding the Closed Block division had retail-related investments of approximately $14 billion consisting primarily of $6 billion of corporate fixed maturities of which 88% were considered investment grade; $7 billion of commercial mortgage loans with a weighted-average loan-to-value ratio of approximately 51% and a weighted-average debt service coverage ratio of 2.44 times; and $1 billion of real estate held through direct

ownership and real estate-related LPs/LLCs.

In addition, we held approximately $9 billion of commercial mortgage-backed securities, of which approximately 88% and 12% were rated AAA (super-senior) and AA, respectively, and comprised of diversified collateral pools. Approximately 30% of the collateral pools were comprised of retail-related investments, with no pools solely collateralized by retail-related investments. For additional information regarding commercial mortgage-backed securities, see "—Fixed Maturity Securities—Fixed Maturity Securities Credit Quality" below.

General Account Investments of PFI excluding Closed Block Division

125

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

Fixed Maturity Securities

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

Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

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

	September 30, 2018				December 31, 2017			
Industry(1)	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
	(in millions)							
Corporate securities:								
Finance	$28,350	$ 728	$ 638	$28,440	$25,906	$ 1,646	$ 84	$27,468
Consumer non-cyclical	24,348	1,320	605	25,063	24,812	2,359	140	27,031
Utility	22,024	1,128	650	22,502	22,265	2,196	118	24,343
Capital goods	10,966	628	260	11,334	11,232	1,076	52	12,256
Consumer cyclical	10,610	512	202	10,920	11,011	972	77	11,906
Foreign agencies	5,632	813	54	6,391	5,619	996	17	6,598
Energy	11,180	639	275	11,544	10,621	998	137	11,482
Communications	6,235	510	152	6,593	6,266	782	77	6,971
Basic industry	5,547	304	116	5,735	6,061	590	37	6,614
Transportation	8,388	476	178	8,686	8,179	777	28	8,928
Technology	3,841	202	62	3,981	4,373	318	33	4,658
Industrial other	4,214	174	128	4,260	3,866	348	23	4,191
Total corporate securities	141,335	7,434	3,320	145,449	140,211	13,058	823	152,446
Foreign government(3)	94,201	14,209	669	107,741	88,539	15,848	291	104,096
Residential mortgage-backed(4)	3,246	129	57	3,318	3,801	191	10	3,982
Asset-backed	9,495	150	22	9,623	8,389	214	7	8,596
Commercial mortgage-backed	8,666	36	186	8,516	8,850	188	64	8,974
U.S. Government	17,830	2,152	869	19,113	16,591	3,005	306	19,290
State & Municipal	9,359	567	90	9,836	8,945	1,016	6	9,955
Total(5)	$284,132	$ 24,677	$ 5,213	$303,596	$275,326	$ 33,520	$ 1,507	$307,339

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

(2)

Includes $330 million of gross unrealized gains and less than $1 million of gross unrealized losses, as of September 30, 2018, compared to $381 million of gross unrealized gains and less than $1 million of gross unrealized losses, as of December 31, 2017, on securities classified as held-to-maturity.

(3) As of both September 30, 2018 and December 31, 2017, based on amortized cost, 75% represent Japanese government bonds held by our Japanese insurance operations with no other individual country representing more than 11% of the balance, respectively.

(4) As of both September 30, 2018 and December 31, 2017, based on amortized cost, more than 99% were rated A or higher.

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

126

The decrease in net unrealized gains from December 31, 2017 to September 30, 2018 was primarily due to an increase in U.S. interest rates and credit spread widening.

Fixed Maturity Securities Credit Quality

The Securities Valuation Office ("SVO") of the NAIC evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called "NAIC Designations." In general, NAIC Designations of "1" highest quality, or "2" high quality, include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody's or BBB- or higher by Standard & Poor's. NAIC Designations of "3" through "6" generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody's and BB+ or lower by Standard & Poor's. The NAIC Designations for commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages, are based on security level expected losses as modeled by an independent third-party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized.

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

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

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

	September 30, 2018				December 31, 2017			
NAIC Designation(1)(2)	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)(4)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)(4)	Fair Value
	(in millions)							
1	$214,659	$ 21,171	$ 3,465	$232,365	$207,791	$ 27,550	$ 925	$234,416
2	53,284	2,620	1,406	54,498	50,751	4,560	335	54,976
Subtotal High or Highest Quality Securities(5)	267,943	23,791	4,871	286,863	258,542	32,110	1,260	289,392
3	9,575	330	197	9,708	10,201	670	79	10,792
4	5,061	397	101	5,357	4,681	501	105	5,077
5	1,360	142	40	1,462	1,666	225	57	1,834
6	193	17	4	206	236	14	6	244
Subtotal Other Securities(6)(7)	16,189	886	342	16,733	16,784	1,410	247	17,947
Total Fixed Maturities	$284,132	$ 24,677	$ 5,213	$303,596	$275,326	$ 33,520	$ 1,507	$307,339

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

(2) Includes, as of September 30, 2018 and December 31, 2017, 1,052 securities with amortized cost of $4,806 million (fair value, $4,777 million) and 982 securities with amortized cost of $6,022 million (fair value, $6,217 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.

(3) Includes $330 million of gross unrealized gains and less than $1 million of gross unrealized losses, as of September 30, 2018, compared to $381 million of gross unrealized gains and less than $1 million of gross unrealized losses, as of December 31, 2017, on securities classified as held-to-maturity.

(4) As of September 30, 2018, includes gross unrealized losses of $208 million on public fixed maturities and $134 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2017, includes gross unrealized losses of $156 million on public fixed maturities and $91 million on private fixed maturities considered to be other than high or highest quality.

127

(5) On an amortized cost basis, as of September 30, 2018, includes $229,622 million of public fixed maturities and $38,321 million of private fixed maturities and, as of December 31, 2017, includes $222,763 million of public fixed maturities and $35,779 million of private fixed maturities.

(6) On an amortized cost basis, as of September 30, 2018, includes $10,431 million of public fixed maturities and $5,758 million of private fixed maturities and, as of December 31, 2017, includes $9,975 million of public fixed maturities and $6,809 million of private fixed maturities.

(7) On an amortized cost basis, as of September 30, 2018, securities considered below investment grade based on lowest of external rating agency ratings total $18,786 million, or 7% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.

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

	September 30, 2018				December 31, 2017			
	Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)		Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)	
Lowest Rating Agency Rating(1)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)							
AAA	$8,862	$8,886	$ 7,606	$ 7,488	$7,613	$7,686	$ 8,002	$ 8,125
AA	413	441	1,049	1,017	419	442	816	818
A	28	32	2	2	40	46	23	22
BBB	17	17	9	9	42	43	9	9
BB and below	175	247	0	0	275	379	0	0
Total(4)	$9,495	$9,623	$ 8,666	$ 8,516	$8,389	$8,596	$ 8,850	$ 8,974

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of September 30, 2018, including Standard & Poor’s, Moody’s, Fitch and Morningstar.

(2) Includes collateralized loan obligations, credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types. As of September 30, 2018 and December 31, 2017, total asset-backed securities included collateralized loan obligations with amortized cost of $7,183 million (fair value of $7,214 million) and $6,609 million (fair value of $6,679 million), respectively, all of which were rated AAA.

(3) As of September 30, 2018 and December 31, 2017, based on amortized cost, 96% and 95%, respectively, were securities with vintages of 2013 or later.

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

Assets Supporting Experience-Rated Contractholder Liabilities (ASCL)

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

	September 30, 2018		December 31, 2017	
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$194	$194	$245	$245
Fixed maturities:				

Corporate securities	13,021	12,892	13,816	14,073
Commercial mortgage-backed securities	2,319	2,274	2,294	2,311
Residential mortgage-backed securities	854	826	961	966
Asset-backed securities	1,315	1,336	1,363	1,392
Foreign government bonds	1,030	1,018	1,050	1,057
U.S. government authorities and agencies and obligations of U.S. states	824	858	357	410
Total fixed maturities(1)	19,363	19,204	19,841	20,209
Equity securities	1,355	1,685	1,278	1,643
Total assets supporting experience-rated contractholder liabilities(2)	$20,912	$21,083	$21,364	$22,097

(1) As a percentage of amortized cost, 93% and 92% of the portfolio was considered high or highest quality based on NAIC or equivalent ratings, as of September 30, 2018 and December 31, 2017, respectively.

(2) As a percentage of amortized cost, 78% and 80% of the portfolio consisted of public securities as of September 30, 2018 and December 31, 2017, respectively.

128

Commercial Mortgage and Other Loans

Investment Mix

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

	September 30, 2018	December 31, 2017
	(in millions)	
Commercial mortgage and agricultural property loans	$49,276	$45,623
Uncollateralized loans	645	661
Residential property loans	161	196
Other collateralized loans	3	5
Total recorded investment gross of allowance(1)	50,085	46,485
Valuation allowance	(105)	(91)
Total net commercial mortgage and other loans(2)	$49,980	$46,394

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(1) As a percentage of recorded investment gross of allowance, more than 99% of these assets were current as of both September 30, 2018 and December 31, 2017.

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

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

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

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

Other collateralized loans include consumer loans.

Composition of Commercial Mortgage and Agricultural Property Loans

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

129

	September 30, 2018		December 31, 2017	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)			
Commercial mortgage and agricultural property loans by region:				
U.S. Regions(1):				
Pacific	$16,386	33.3 %	$14,965	32.8 %
South Atlantic	8,566	17.4	8,666	19.0
Middle Atlantic	6,029	12.2	5,776	12.7
East North Central	2,787	5.7	2,440	5.3
West South Central	5,437	11.0	4,671	10.2
Mountain	2,478	5.0	2,027	4.5
New England	1,885	3.8	1,774	3.9
West North Central	544	1.1	641	1.4
East South Central	637	1.3	612	1.3
Subtotal-U.S.	44,749	90.8	41,572	91.1
Europe	2,872	5.8	2,528	5.5
Asia	629	1.3	619	1.4
Other	1,026	2.1	904	2.0
Total commercial mortgage and agricultural property loans	$49,276	100.0%	$45,623	100.0%

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

	September 30, 2018		December 31, 2017	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)			
Commercial mortgage and agricultural property loans by property type:				
Industrial	$10,056	20.4 %	$8,444	18.5 %
Retail	6,877	14.0	6,595	14.5
Office	10,896	22.1	10,020	22.0
Apartments/Multi-Family	14,033	28.5	12,993	28.5
Other	3,163	6.4	3,336	7.3
Agricultural properties	2,649	5.4	2,526	5.5
Hospitality	1,602	3.2	1,709	3.7
Total commercial mortgage and agricultural property loans	$49,276	100.0%	$45,623	100.0%

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

130

Explanation of Responses:

As of September 30, 2018, our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division had a weighted-average debt service coverage ratio of 2.42 times and a weighted-average loan-to-value ratio of 55%. As of September 30, 2018, 97% of commercial mortgage and agricultural property loans were fixed rate loans. For those commercial mortgage and agricultural property loans that were originated in 2018, the weighted-average debt service coverage ratio was 2.30 times, and the weighted-average loan-to-value ratio was 65%.

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

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial mortgage and agricultural property loan portfolio included $1.1 billion and approximately $1.5 billion of such loans as of September 30, 2018 and December 31, 2017, respectively. All else being equal, these loans are inherently riskier than those collateralized by properties that have already stabilized. As of September 30, 2018, there were no loan-specific reserves related to these loans. In addition, these unstabilized loans are included in the calculation of our portfolio reserve, as discussed below.

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

	September 30, 2018 Debt Service Coverage Ratio			
	> 1.2x	1.0x to < 1.2x	< 1.0x	Total Commercial Mortgage and Agricultural Property Loans
Loan-to-Value Ratio	(in millions)			
0%-59.99%	$26,386	$590	$237	$ 27,213
60%-69.99%	14,872	414	2	15,288
70%-79.99%	5,598	746	32	6,376
80% or greater	283	114	2	399
Total commercial mortgage and agricultural property loans	$47,139	$1,864	$273	$ 49,276

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

Year of Origination	September 30, 2018 Gross Carrying Value	% of Total	
	($ in millions)		
2018	$6,763	13.7	%
2017	8,000	16.2	
2016	7,209	14.6	

2015	6,904	14.0
2014	6,508	13.2
2013	5,986	12.2
2012	3,183	6.5
2011 & Prior	4,723	9.6
Total commercial mortgage and agricultural property loans	$49,276	100.0%

131

Commercial Mortgage and Other Loans Quality

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

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

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

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

	September 30, 2018	December 31, 2017
	(in millions)	
Allowance, beginning of year	$91	$ 90
Addition to (release of) allowance for losses	14	1
Charge-offs, net of recoveries	0	0
Change in foreign exchange	0	0
Allowance, end of period	$105	$ 91
Loan-specific reserve	$13	$ 5
Portfolio reserve	$92	$ 86

The allowance for losses as of September 30, 2018 increased compared to December 31, 2017 primarily due to additions to the loan-specific reserve from credit quality deterioration of certain loans in the portfolio.

Equity Securities

Investment Mix

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

dates indicated:

132

	September 30, 2018				December 31, 2017			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Mutual funds	$776	$ 175	$ 2	$949	$778	$ 157	$ 0	$935
Other common stocks	2,343	1,056	66	3,333	2,215	1,145	30	3,330
Non-redeemable preferred stocks	19	1	1	19	11	1	1	11
Equity securities, at fair value(1)(2)	$3,138	$ 1,232	$ 69	$4,301	$3,004	$ 1,303	$ 31	$4,276

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

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

The net change in unrealized gains (losses) from equity securities attributable to PFI excluding Closed Block division still held at period end, recorded within “Other income,” was $53 million and $(109) million during the three and nine months ended September 30, 2018, respectively.

Other Invested Assets

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

	September 30, 2018	December 31, 2017
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity	$2,155	$ 2,067
Hedge funds	729	400
Real estate-related	523	268
Subtotal equity method	3,407	2,735
Fair value:		
Private equity	927	731
Hedge funds	1,351	1,361
Real estate-related	45	63
Subtotal fair value(1)	2,323	2,155
Total LPs/LLCs	5,730	4,890
Real estate held through direct ownership(2)	1,735	1,875
Derivative instruments	82	113
Other(3)	625	632
Total other invested assets(4)	$8,172	$ 7,510

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

(2) As of September 30, 2018 and December 31, 2017, real estate held through direct ownership had mortgage debt of $759 million and $799 million, respectively.

(3) Primarily includes leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 14 to the Consolidated Financial Statements included in the Company’s Annual Report

on Form 10-K for the year ended December 31, 2017.

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

133

Invested Assets of Other Entities and Operations

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

	September 30, 2018	December 31, 2017
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	$455	$ 608
Private, available-for-sale, at fair value	1	1
Fixed maturities, trading, at fair value	1,151	1,718
Equity securities, at fair value	611	574
Commercial mortgage and other loans, at book value(1)	441	634
Other invested assets	2,273	2,704
Short-term investments	26	66
Total investments(2)	$4,958	$ 6,305

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

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

Fixed Maturities, Trading

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

Commercial Mortgage and Other Loans

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

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

Other Invested Assets

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

Furthermore, other invested assets include strategic investments made as part of our investment management operations. We make these strategic investments in real estate, as well as fixed income, public equity and real estate

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

134

Table of Contents

Liquidity and Capital Resources

Overview

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

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

Our businesses are subject to comprehensive regulation and supervision by domestic and international regulators. These regulations currently include, or may include in the future requirements and limitations (many of which are the subject of ongoing rule-making) relating to capital, leverage, liquidity, stress-testing, overall risk management, credit exposure reporting and credit concentration. For information on regulation and its potential impact, see “Business—Regulation” and “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2017 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Overview - Regulatory Developments” within this Form 10-Q.

During the nine months ended September 30, 2018, we took the following significant actions that impacted our liquidity and capital position:

- We repurchased $1,125 million of shares of our Common Stock and declared aggregate Common Stock dividends of $1,149 million;
- We issued $1.6 billion of junior subordinated notes and $1.0 billion of medium-term notes to be utilized for general corporate purposes, which included refinancing portions of our medium-term notes maturing during 2018;
- We redeemed our $600 million 8.875% Fixed-to-Floating Rate Junior Subordinated Note due 2068;
- We obtained additional financing for Regulation XXX reserves by entering into a new captive financing facility for $1.6 billion, of which $100 million was outstanding as of September 30, 2018;
- We obtained additional financing for Guideline AXXX reserves by increasing an existing captive financing facility by $1 billion, for a total of $2 billion, of which $1,466 million was outstanding as of September 30, 2018; and
- We entered into a yearly renewable term reinsurance agreement which resulted in a reduction in risk-based capital required to be held in our Group Insurance segment.

Capital

The primary components of the Company’s capitalization consist of equity and outstanding capital debt, including junior subordinated debt. As shown in the table below, as of September 30, 2018, the Company had $50.9 billion in capital, all of which was available to support the aggregate capital requirements of its divisions and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital is consistent with our ratings targets.

	September 30, 2018	December 31, 2017
	(in millions)	
Equity(1)(2)	$37,575	$ 37,162
Junior subordinated debt (including hybrid securities)	7,564	6,622
Other capital debt	5,797	5,402
Total capital	$50,936	$ 49,186

(1) Amounts attributable to Prudential Financial, excluding AOCI.
(2) Prior period amount has been restated to conform to current period presentation. See Note 2 to our Unaudited Interim Consolidated Financial Statements for details.

135

Table of Contents

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

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

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

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

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

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

In June 2018, the Capital Adequacy Task Force of the NAIC approved revisions to the NAIC RBC framework as a result of the adoption of the Tax Act of 2017 and the corresponding reduction of the corporate tax rate from 35% to 21%. The revisions will apply to the calculation of our domestic insurance life insurance companies' RBC ratios as of December 31, 2018. While there is no impact on our ability to pay claims, the revisions to the RBC framework for the reduction of the corporate tax rate under the Tax Act of 2017 have the effect of increasing certain RBC factors, resulting in an overall decrease in insurers' RBC ratios. Also, our statutory capital position has been adversely impacted by the increase in reserves for our Long-Term Care business resulting from our annual reviews and update of assumptions and other refinements (see "—Results of Operations by Segment—Divested Businesses" for additional information). The Company expects to have the necessary resources to maintain its "AA" ratings targets considering these impacts.

The table below presents the solvency margin ratios of our most significant international insurance subsidiaries as of June 30, 2018, the most recent date for which this information is available.

	Ratio
Prudential of Japan consolidated(1)	850%
Gibraltar Life consolidated(2)	931%

(1) Includes Prudential Trust Co., Ltd., a subsidiary of Prudential of Japan.
(2) Includes Prudential Gibraltar Financial Life Insurance Co., Ltd. ("PGFL"), a subsidiary of Gibraltar Life.

All of our domestic and significant international insurance subsidiaries have capital levels that substantially exceed the minimum level required by applicable insurance regulations. For further information on the calculation of RBC and solvency margin ratios, as well as regulatory minimums, see Note 15 to the Consolidated Financial Statements

included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Capital Protection Framework

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

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

Table of Contents

Captive Reinsurance Companies

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

Shareholder Distributions

Share Repurchase Program and Shareholder Dividends

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

The timing and amount of share repurchases are determined by management based on market conditions and other considerations, including any increased capital needs of our businesses due to, among other things, changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934 (the "Exchange Act"). The following table sets forth information about declarations of Common Stock dividends, as well as repurchases of shares of Prudential Financial's Common Stock, for the nine months ended September 30, 2018.

	Dividend Amount		Shares Repurchased	
Three months ended:	Per Share	Aggregate	Shares	Total Cost
	(in millions, except per share data)			
March 31, 2018	$0.90	$ 387	3.3	$ 375
June 30, 2018	$0.90	$ 382	3.7	$ 375
September 30, 2018	$0.90	$ 380	3.8	$ 375

Liquidity

The principles of our liquidity management framework are described in an enterprise-wide Liquidity Management Policy that is reviewed and approved by the Board. Liquidity management and stress testing are performed on a legal entity basis as the ability to transfer funds between subsidiaries is limited due in part to regulatory restrictions. Liquidity needs are determined through daily and quarterly cash flow forecasting at the holding company and within our operating subsidiaries. A minimum balance of highly liquid assets of at least $1.3 billion is targeted to ensure that adequate liquidity is available at Prudential Financial to cover fixed expenses in the event that we experience reduced cash flows from our operating subsidiaries at a time when access to capital markets is also not available. This targeted minimum balance is reviewed and approved annually by the Board.

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

Liquidity of Prudential Financial

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

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

137

Table of Contents

As of September 30, 2018, Prudential Financial had highly liquid assets with a carrying value totaling $6,340 million, an increase of $1,150 million from December 31, 2017. Highly liquid assets predominantly include cash, short-term investments, U.S. Treasury securities, obligations of other U.S. government authorities and agencies, and/or foreign government bonds. We maintain an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding the balance of this intercompany liquidity account, Prudential Financial had highly liquid assets of $5,161 million as of September 30, 2018, an increase of $785 million from December 31, 2017.

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

	Nine Months Ended September 30, 2018 (in millions)
Sources:	
Dividends and/or returns of capital from subsidiaries(1)	$ 3,067
Proceeds from the issuance of debt	2,531
Proceeds from stock-based compensation and exercise of stock options	268
Net income tax receipts	125
Net receipts under intercompany loan agreements(2)	88
Total sources	6,079
Uses:	
Repayments on external debt	1,437
Common stock dividends(3)	1,147
Share repurchases	1,112
Interest paid on external debt	576
Capital contributions to subsidiaries(4)	874
Other, net	148
Total uses	5,294
Net increase (decrease) in highly liquid assets	$ 785

(1) Includes dividends and/or returns of capital of $1,715 million from international insurance subsidiaries, $800 million from PALAC, $432 million from PGIM subsidiaries, $114 million from Prudential Annuities Holding Company, and $6 million from other subsidiaries.

(2) Includes net receipts of $750 from million from Gibraltar Universal Life Reinsurance Company and $215 million from PGIM, offset by net payments of $623 million to international insurance subsidiaries, $150 million to Dryden Arizona Reinsurance Term Company, $100 million to Prudential Universal Reinsurance Company and $4 million to other subsidiaries.

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

(4) Reflects capital contributions of $590 million to PICA and $284 million to international insurance subsidiaries.

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. Also, more generally, the

payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors. See Note 15 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017, for details on specific dividend restrictions.

Domestic insurance subsidiaries. Prudential Insurance is permitted to pay ordinary dividends based on calculations specified under New Jersey insurance law, subject to prior notification to the New Jersey Department of Banking and Insurance (“NJDOBI”). Any distributions above this amount in any twelve-month period are considered to be “extraordinary” dividends, and the approval of NJDOBI is required prior to payment. The laws regulating dividends of the states where our other domestic insurance companies are domiciled are similar, but not identical, to New Jersey’s. During the first nine months of 2018, Prudential Financial received extraordinary dividends of $800 million from PALAC.

Table of Contents

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

During the first nine months of 2018, Prudential Financial received $1,689 million from Prudential International Insurance Holdings, the domestic parent of our international insurance subsidiaries, all of which was received from Prudential Holdings of Japan, Inc. (“PHJ”), the parent of the Company’s Japanese operations. Of this amount, $260 million was sent to PHJ from its subsidiaries in 2016 and had been retained at PHJ since that time. PHJ received the remaining $1,429 million as a common stock dividend from its subsidiaries in 2018.

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

Liquidity of Insurance Subsidiaries

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

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

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

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

	September 30, 2018						
	Prudential Insurance	PLIC	PRIAC	PALAC	Pruco Life	Total	December 31, 2017

	(in billions)						
Cash and short-term investments	$5.5	$0.6	$ 0.3	$ 0.6	$ 0.3	$7.3	$ 11.7
Fixed maturity investments(1):							
High or highest quality	105.0	35.0	18.8	9.1	4.9	172.8	175.1
Other than high or highest quality	6.8	2.6	1.5	0.5	0.4	11.8	13.8
Subtotal	111.8	37.6	20.3	9.6	5.3	184.6	188.9
Public equity securities, at fair value	0.2	2.1	0.0	0.0	0.0	2.3	2.8
Total	$117.5	$40.3	$ 20.6	$ 10.2	$ 5.6	$194.2	$ 203.4

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

139

Table of Contents

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

	September 30, 2018				
	Prudential of Japan	Gibraltar Life(1)	All Other(2)	Total	December 31, 2017
	(in billions)				
Cash and short-term investments	$0.6	$ 2.1	$ 1.3	$4.0	$ 4.2
Fixed maturity investments(3):					
High or highest quality(4)	37.3	87.4	17.9	142.6	145.2
Other than high or highest quality	0.9	3.2	1.6	5.7	6.0
Subtotal	38.2	90.6	19.5	148.3	151.2
Public equity securities	1.9	1.8	0.8	4.5	4.5
Total	$40.7	$ 94.5	$ 21.6	$156.8	$ 159.9

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(1) Includes PGFL.
(2) Represents our international insurance operations, excluding Japan.
(3) Excludes fixed maturities designated as held-to-maturity. Classified by NAIC or equivalent rating.
(4) As of September 30, 2018, $105.7 billion, or 74%, were invested in government or government agency bonds.

Liquidity associated with other activities

Hedging activities associated with Individual Annuities

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

The hedging portion of our Individual Annuities' ALM strategy and capital hedge program may also result in derivative related collateral postings to (when we are in a net pay position) or from (when we are in a net receive position) counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs when we are in a net pay position. As of September 30, 2018, the derivatives comprising the hedging portion of our ALM strategy and capital hedge program were in a net receive position of $0.4 billion compared to a net receive position of $3.3 billion as of December 31, 2017. The change in collateral position was primarily driven by an increase in interest rates.

Foreign exchange hedging activities

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the yen. Our overall yen hedging strategy calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company's overall return on equity on a leverage neutral basis. The hedging strategy includes two primary components:

Income Hedges—We hedge a portion of our prospective yen-based earnings streams by entering into external forward currency derivative contracts that effectively fix the currency exchange rates for that portion of earnings, thereby reducing volatility from foreign currency exchange rate movements. As of September 30, 2018, we have hedged 100%, 95%, 56% and 13% of expected yen-based earnings for 2018, 2019, 2020 and 2021, respectively.

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

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

Table of Contents

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

Cash Settlements:	Nine Months Ended September 30, 2018	2017
	(in millions)	
Income Hedges (External)(1)	$(25)	$(5)
Equity Hedges:		
Internal(2)	66	10
External	205	(150)
Total Equity Hedges	271	(140)
Total Cash Settlements	$246	$(145)

Assets (Liabilities):	As of September 30, 2018	December 31, 2017
	(in millions)	
Income Hedges (External)(3)	$102	$(42)
Equity Hedges:		
Internal(2)	691	623
External	128	303
Total Equity Hedges(4)	819	926
Total Assets (Liabilities)	$921	$ 884

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(1) Includes non-yen related cash settlements of $(15) million, primarily denominated in Korean won, Chilean peso and Australian dollar and $(6) million, primarily denominated in Brazilian real and Chilean peso, for the nine months ended September 30, 2018 and 2017, respectively.

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

(3) Includes non-yen related assets of $42 million, primarily denominated in Brazilian real and Australian dollar, and liabilities of $(65) million, primarily denominated in Korean won and Australian dollar, as of September 30, 2018 and December 31, 2017, respectively.

(4) As of September 30, 2018, approximately $74 million, $543 million and $201 million of the net market value is scheduled to settle in 2018, 2019 and thereafter, respectively. The net market value of the assets (liabilities) will vary with changing market conditions to the extent there are no corresponding offsetting positions.

PGIM operations

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

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

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

Alternative Sources of Liquidity

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

141

Table of Contents

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

Asset-based Financing

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

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

	September 30, 2018			December 31, 2017		
	PFI Excluding Closed Block Division	Closed Block Division	Consolidated	PFI Excluding Closed Block Division	Closed Block Division	Consolidated
	($ in millions)					
Securities sold under agreements to repurchase	$ 6,288	$ 2,888	$ 9,176	$ 4,960	$ 3,440	$ 8,400
Cash collateral for loaned securities	3,618	1,038	4,656	3,203	1,151	4,354
Securities sold but not yet purchased	3	0	3	3	0	3
Total(1)	$ 9,909	$ 3,926	$ 13,835	$ 8,166	$ 4,591	$ 12,757
Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral	$ 3,918	$ 1,083	$ 5,001	$ 3,838	$ 1,393	$ 5,231
Weighted average maturity, in days(2)	7	2		12	3	

(1) The daily weighted average outstanding balance for the three and nine months ended September 30, 2018 was $9,986 million and $9,367 million, respectively, for PFI excluding the Closed Block division, and $4,064 million and $4,438 million, respectively, for the Closed Block division.
(2) Excludes securities that may be returned to the Company overnight.

As of September 30, 2018, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of $113.5 billion, of which $13.9 billion were on loan. Taking into account market conditions and outstanding loan balances as of September 30, 2018, we believe approximately $15.9 billion of the remaining eligible assets are readily lendable, including approximately $11.3 billion relating to PFI excluding the Closed Block division, of which $3.4 billion relates to certain separate accounts and may only be used for financing activities related to those accounts, and the remaining $4.6 billion relating to the Closed Block division.

Financing Activities

As of September 30, 2018, total short-term and long-term debt of the Company on a consolidated basis was $19.8 billion, an increase of $1.3 billion from December 31, 2017. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such actions will depend on prevailing market conditions, our liquidity position and other factors.

142

Table of Contents

Borrowings:	September 30, 2018 Prudential Financial (in millions)	Subsidiaries	Consolidated	December 31, 2017 Prudential Financial	Subsidiaries	Consolidated
General obligation short-term debt:						
Commercial paper	$25	$ 719	$ 744	$50	$ 500	$ 550
Current portion of long-term debt	1,100	500	1,600	830	0	830
Subtotal	1,125	1,219	2,344	880	500	1,380
General obligation long-term debt:						
Senior debt	8,633	173	8,806	8,738	173	8,911
Junior subordinated debt	7,509	55	7,564	6,566	56	6,622
Surplus notes(1)	0	341	341	0	840	840
Subtotal	16,142	569	16,711	15,304	1,069	16,373
Total general obligations	17,267	1,788	19,055	16,184	1,569	17,753
Limited and non-recourse borrowings(2):						
Current portion of long term debt	0	49	49	0	0	0
Long-term debt	0	710	710	0	799	799
Total limited and non-recourse borrowings	0	759	759	0	799	799
Total borrowings	$17,267	$ 2,547	$ 19,814	$16,184	$ 2,368	$ 18,552

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(1) Amounts are net of assets under set-off arrangements of $8,419 million and $7,287 million as of September 30, 2018, and December 31, 2017, respectively.

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

As of September 30, 2018, and December 31, 2017, we were in compliance with all debt covenants related to the borrowings in the table above. For further information on our short- and long-term debt obligations, see Note 9 to the Unaudited Interim Consolidated Financial Statements contained herein and Note 14 to the Company’s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2017.

Prudential Financial’s borrowings increased $1,083 million from December 31, 2017, primarily driven by the issuance of $994 million of senior debt and $1,538 million of junior subordinated notes, offset by $700 million of senior debt maturities, the redemption of $600 million of junior subordinated notes, $131 million of retail note maturities, and a $25 million decrease in commercial paper outstanding. Borrowings of our subsidiaries increased $179 million from December 31, 2017, primarily driven by a $219 million increase in commercial paper outstanding, offset by a $40 million decrease in mortgage borrowings.

Term and Universal Life Reserve Financing

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

We have entered into agreements with external counterparties providing for the issuance of surplus notes by our captive reinsurers in return for the receipt of credit-linked notes (“Credit-Linked Note Structures”). Under the agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a

special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding. The captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. As of September 30, 2018, we had Credit-Linked Note Structures with an aggregate issuance capacity of $13,700 million, of which $10,619 million was outstanding, as compared to an aggregate issuance capacity of $11,100 million, of which $9,487 million was outstanding, as of December 31, 2017. For more information on our Credit-Linked Note Structures, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Financing Activities” in our Annual Report on Form 10-K for the year ended December 31, 2017.

143

Table of Contents

The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of September 30, 2018.

Credit-Linked Note Structures:	Surplus Notes Original Issue Dates	Maturity Dates	Outstanding as of September 30, 2018		Facility Size
	($ in millions)				
XXX	2011-2014	2021-2024	$ 1,750	(1)	$ 2,000
AXXX	2013	2033	3,003		3,500
XXX	2014-2017	2022-2034	2,200	(2)	2,200
XXX	2014-2017	2024-2037	2,100		2,400
AXXX	2017	2037	1,466		2,000
XXX	2018	2038	100		1,600
Total Credit-Linked Note Structures			$ 10,619		$ 13,700

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

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

As of September 30, 2018, we also had outstanding an aggregate of $2.4 billion of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately $0.6 billion relates to Regulation XXX reserves and approximately $1.8 billion relates to Guideline AXXX reserves, all of which was issued by Prudential Financial. In addition, as of September 30, 2018, for purposes of financing Guideline AXXX reserves, our captives had outstanding approximately $4.0 billion of surplus notes that were issued to affiliates.

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

The Company has introduced updated versions of several products in its individual life product portfolio in conjunction with the requirement to adopt principle-based reserving by January 1, 2020. Notably, the Company adopted principle-based reserving for its guaranteed universal life products and introduced updated versions of these products in 2017. The guaranteed universal life updated products support the principle-based statutory reserve level without the need for financing through captive reinsurance. The Company is continuing to assess the impact of principle-based reserving on projected statutory reserve levels and product pricing for its remaining portfolio of individual life product offerings.

Ratings

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

In April 2018, S&P revised the company outlook for Prudential of Japan, Gibraltar Life and PGFL from Stable to Positive. A rating agency company outlook generally indicates a medium- or long-term trend (generally six months to two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice.

144

Table of Contents

Off-Balance Sheet Arrangements

Guarantees, Other Contingencies and Other Contingent Commitments

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

Other Off-Balance Sheet Arrangements

In November 2013, we entered into a put option agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to $1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust. In 2014, Prudential Financial entered into financing transactions, pursuant to which it issued $500 million of limited recourse notes and, in return, obtained $500 million of asset-backed notes from a Delaware master trust and ultimately contributed the asset-backed notes to its subsidiary, PRIAC. As of September 30, 2018, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited recourse notes. Accordingly, none of the notes are reflected in the Company's Unaudited Interim Consolidated Financial Statements as of that date.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. As of September 30, 2018, there have been no material changes in our economic exposure to market risk from December 31, 2017, a description of which may be found in our Annual Report on Form 10-K, for the year ended December 31, 2017, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," filed with the Securities and Exchange Commission. See Item 1A, "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2017, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

ITEM 4. CONTROLS AND PROCEDURES

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company's management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2018. Based on such evaluation, the Chief Executive

Officer and Chief Financial Officer have concluded that, as of September 30, 2018, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended September 30, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

(c) The following table provides information about purchases by the Company during the three months ended September 30, 2018, of its Common Stock:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Approximate Dollar Value of Shares that May Yet Be Purchased under the Program(2)
July 1, 2018 through July 31, 2018	1,300,437	$ 96.60	1,293,953	
August 1, 2018 through August 31, 2018	1,268,756	$ 98.73	1,266,049	
September 1, 2018 through September 30, 2018	1,248,210	$ 100.40	1,245,016	
Total	3,817,403	$ 98.55	3,805,018	$ 375,000,000

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

(2) 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.

Table of Contents

ITEM 6. EXHIBITS

EXHIBIT INDEX

10.1 Fourth Amendment to the Prudential Supplemental Retirement Plan.

10.2 Fourth Amendment to the Prudential Supplemental Employee Savings Plan.

31.1 Section 302 Certification of the Chief Executive Officer.

31.2 Section 302 Certification of the Chief Financial Officer.

32.1 Section 906 Certification of the Chief Executive Officer.

32.2 Section 906 Certification of the Chief Financial Officer.

101.INS - XBRL Instance Document.

101.SCH - XBRL Taxonomy Extension Schema Document.

101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB - XBRL Taxonomy Extension Label Linkbase Document.

101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF - XBRL Taxonomy Extension Definition Linkbase Document.

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

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

147

Table of Contents

GLOSSARY

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

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

Defined Terms

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

America

148

Explanation of Responses:

Table of Contents

Acronyms

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

Table of Contents

SIGNATURES

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

Prudential Financial, Inc.
By: /S/ ROBERT M. FALZON
Robert M. Falzon
Executive Vice President and Chief Financial Officer
(Authorized signatory and principal financial officer)

Date: November 8, 2018