PRUDENTIAL FINANCIAL INC
Form 10-Q
November 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

OR

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

Commission File Number 001-16707

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

New Jersey	22-3703799
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

751 Broad Street
Newark, New Jersey 07102
(973) 802-6000
(Address and Telephone Number of Registrant's Principal Executive Offices)

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

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

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

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

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

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

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

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Forward-Looking Statements

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

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements
PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Financial Position
September 30, 2017 and December 31, 2016 (in millions, except share amounts)

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

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

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

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2017 and 2016 (in millions, except per share amounts)

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

See Notes to Unaudited Interim Consolidated Financial Statements

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Equity
Nine Months Ended September 30, 2017 and 2016 (in millions)

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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

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

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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

1. BUSINESS AND BASIS OF PRESENTATION

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

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

Basis of Presentation

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

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

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

Use of Estimates

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

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

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

Out of Period Adjustments

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

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

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Accounting for Certain Reinsurance Contracts in the Individual Life business

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

Recent Accounting Pronouncements

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

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

ASU adopted during the nine months ended September 30, 2017

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

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

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

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

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

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

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

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-02, Leases (Topic 842)	This ASU ensures that assets and liabilities from all outstanding lease contracts are recognized on the balance sheet (with limited exception). The ASU substantially changes a Lessee's accounting for leases and requires the recording on balance sheet of a "right-of-use" asset and liability to make lease payments for most leases. A Lessee will continue to recognize expense in its income statement in a manner similar to the requirements under the current lease accounting standard. For Lessors, the standard modifies classification criteria and accounting for sales-type and direct financing leases and requires a Lessor to derecognize the carrying value of the leased asset that is considered to have been transferred to a Lessee and record a lease receivable and residual asset ("receivable and residual" approach). The standard also eliminates the real estate specific provisions of the current standard (i.e., sale-leaseback).	January 1, 2019 using the modified retrospective method (with early adoption permitted).	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2016-13, Financial Instruments-Credit Losses (Topic326): Measurement of Credit Losses on Financial Instruments	This ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held to maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard also modifies the current OTTI standard for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces the existing standard for purchased credit deteriorated loans and debt securities.	January 1, 2020 using the modified retrospective method, however prospective application is required for purchased credit deteriorated assets previously accounted for under ASU 310-30 and for debt securities for which an OTTI was recognized prior to the date of adoption. Early adoption is permitted beginning January 1, 2019.	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2016-15, Statement of Cash	This ASU addresses diversity in practice in how certain cash receipts and cash payments are	January 1, 2018 using the retrospective	Based on the assessment

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

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

Assets	recognition standard when an entity derecognizes nonfinancial assets and in substance nonfinancial assets, and the counterparty is not a customer.		
ASU 2017-08, Receivables -Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities	This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date.	January 1, 2019 using the modified retrospective method (with early adoption permitted).	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

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

3. ACQUISITIONS

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

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

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of September 30, 2017, $7 million of the gross unrealized losses on equity securities represented declines in value of 20% or more, $4 million of which had been in a gross unrealized loss position for less than six months. As of December 31, 2016, $9 million of the gross unrealized losses on equity securities represented declines in value of 20% or more, $8 million of which had been in a gross unrealized loss position for less than six months. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the Company concluded that an adjustment to earnings for OTTI for these equity securities was not warranted at either September 30, 2017 or December 31, 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

Trading Account Assets Supporting Insurance Liabilities

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

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

(1) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(2)

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

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

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Other Trading Account Assets

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

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

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

Concentrations of Financial Instruments

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

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

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

	September 30, 2017		December 31, 2016	
		Fair		Fair

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

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

Commercial Mortgage and Other Loans

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

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

(1) Includes loans held for sale which are carried at fair value and are collateralized primarily by apartment complexes. As of September 30, 2017 and December 31, 2016, the net carrying value of these loans was $340 million and $519 million, respectively.

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

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

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

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

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

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

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

(1) As of September 30, 2017, there were no loans acquired with deteriorated credit quality.
(2) Recorded investment reflects the carrying value gross of related allowance.

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

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

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(1) As of December 31, 2016, there were no loans acquired with deteriorated credit quality.
(2) Recorded investment reflects the carrying value gross of related allowance.

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

Commercial mortgage loans

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

Agricultural property loans

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Total commercial mortgage and agricultural property loans

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

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

Commercial mortgage loans

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

Agricultural property loans

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

Total commercial mortgage and agricultural property loans

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

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

(2) For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

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

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

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

Other Long-Term Investments

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

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

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

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

Net Investment Income

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Realized Investment Gains (Losses), Net

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

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

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

Net Unrealized Gains (Losses) on Investments

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

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

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

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

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

Repurchase Agreements and Securities Lending

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

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

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

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

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

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

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

5. VARIABLE INTEREST ENTITIES

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

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

Consolidated Variable Interest Entities

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

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

(1) Total assets of consolidated VIEs reflects $1,631 million and $1,386 million as of September 30, 2017 and December 31, 2016, respectively, related to VIEs whose beneficial interests are wholly-owned by consolidated subsidiaries.
(2) Recourse is limited to the assets of the respective VIE and does not extend to the general credit of Prudential Financial. As of September 30, 2017 and December 31, 2016, the maturities of these obligations were greater than five years.

Unconsolidated Variable Interest Entities

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

In the normal course of its activities, the Company will invest in joint ventures and limited partnerships. These ventures include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company’s maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company classifies these investments as “Other long-term investments” and its maximum exposure to loss associated with these entities was $8,454 million and $8,010 million as of September 30, 2017 and December 31, 2016, respectively.

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

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

6. CLOSED BLOCK

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

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

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

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

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

Information regarding the policyholder dividend obligation is as follows:

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

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

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

7. EQUITY

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

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

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

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

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

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

Class B Stock

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

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

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

Accumulated Other Comprehensive Income (Loss)

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

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

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

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

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

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

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

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

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(1) All amounts are shown before tax.
(2) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.
(3) See Note 14 for additional information on cash flow hedges.
(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition and other costs, future policy benefits and policyholders' dividends.
(5) See Note 10 for information on employee benefit plans.

Net Unrealized Investment Gains (Losses)

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

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

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

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

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

All Other Net Unrealized Investment Gains (Losses) in AOCI

Net Unrealized Gains (Losses) on Investments(1)	DAC, DSI, VOBA and Reinsurance Recoverables	Future Policy Benefits, Policyholders' Account Balances and Reinsurance Payables	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)

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

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

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

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

8. EARNINGS PER SHARE

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

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

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

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

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

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

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

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

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

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

9. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

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

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

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(1) Includes $73 million that has recourse only to real estate investment property at December 31, 2016.
(2) Includes Prudential Financial debt of $1,242 million and $535 million at September 30, 2017 and December 31, 2016, respectively.
(3) Excludes the current portion of long-term debt.

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

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

Long-term Debt

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

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

(1) The surplus notes have corresponding assets where rights to set-off exist, thereby reducing the amount of surplus notes included in long-term debt.
(2) Includes $104 million and $82 million of debt denominated in foreign currency at September 30, 2017 and December 31, 2016, respectively.
(3) Includes $55 million of debt denominated in foreign currency at December 31, 2016.
(4) Includes $238 million and $221 million of debt denominated in foreign currency at September 30, 2017 and December 31, 2016, respectively.
(5) Includes Prudential Financial debt of $6,564 million and subsidiary debt of $57 million denominated in foreign currency at September 30, 2017.
(6) Includes Prudential Financial debt of $15,303 million and $15,389 million at September 30, 2017 and December 31, 2016, respectively.

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

Surplus Notes

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

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

Senior Notes

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

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

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

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Junior Subordinated Notes

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

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

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

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

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

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

	Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	

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

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

11. SEGMENT INFORMATION

Segments

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

Adjusted Operating Income

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

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

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

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

Reconciliation of adjusted operating income and net income (loss)

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

Reconciliation of select financial information

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

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

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

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

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

12. INCOME TAXES

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

13. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

(3)

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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

	As of September 30, 2017						
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
	(in millions)						
Assets:							
Corporate securities(2)	$1,577	Discounted cash flow	Discount rate	0.58%	-20%	5.94%	Decrease
		Market comparables	EBITDA multiples(3)	7.3X	7.3X	7.3X	Increase
		Liquidation	Liquidation value	13.07%	-13.21%	13.14%	Increase

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

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

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

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

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

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

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

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

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

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

(8) The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration, and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilize the benefit. Utilization assumptions may vary by product type, tax status and age. The impact of changes in these assumptions is highly dependent on the product type, the age of the contractholder at the time of the sale and the timing of the first lifetime income withdrawal. Range reflects the utilization rate for the vast majority of business with living benefits.

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

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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