PRUDENTIAL FINANCIAL INC
Form 10-Q
August 03, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

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

Commission File Number 001-16707

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

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

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

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

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

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

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

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

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

As of July 31, 2018, 417 million shares of the registrant’s Common Stock (par value $0.01) were outstanding.

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Forward-Looking Statements

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

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements
PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Financial Position
June 30, 2018 and December 31, 2017 (in millions, except share amounts)

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Fixed maturities, available-for-sale, at fair value (amortized cost: 2018-$317,548; 2017-$312,385)(1) | $341,151 | $ 346,780 |
| Fixed maturities, held-to-maturity, at amortized cost (fair value: 2018-$2,388; 2017-$2,430)(1) | 2,020 | 2,049 |
| Fixed maturities, trading, at fair value (amortized cost: 2018-$2,980; 2017-$3,509)(1)(2) | 2,916 | 3,507 |
| Assets supporting experience-rated contractholder liabilities, at fair value(1)(2) | 21,497 | 22,097 |
| Equity securities, at fair value (cost: 2018-$5,374; 2017-$5,154)(1)(2) | 7,191 | 7,329 |
| Commercial mortgage and other loans (includes $330 and $593 measured at fair value under the fair value option at June 30, 2018 and December 31, 2017, respectively)(1) | 58,622 | 56,045 |
| Policy loans | 11,935 | 11,891 |
| Other invested assets (includes $5,138 and $3,159 measured at fair value at June 30, 2018 and December 31, 2017, respectively)(1)(2) | 13,459 | 13,373 |
| Short-term investments(2) | 5,728 | 6,800 |
| Total investments | 464,519 | 469,871 |
| Cash and cash equivalents(1) | 14,918 | 14,490 |
| Accrued investment income(1) | 3,235 | 3,325 |
| Deferred policy acquisition costs | 19,643 | 18,992 |
| Value of business acquired | 2,027 | 1,591 |
| Other assets(1) | 16,860 | 17,250 |
| Separate account assets | 298,658 | 306,617 |
| TOTAL ASSETS | $819,860 | $ 832,136 |
| LIABILITIES AND EQUITY | | |
| LIABILITIES | | |
| Future policy benefits | $260,435 | $ 257,317 |
| Policyholders’ account balances | 149,359 | 148,189 |
| Policyholders’ dividends | 4,858 | 6,411 |
| Securities sold under agreements to repurchase | 9,540 | 8,400 |
| Cash collateral for loaned securities | 4,307 | 4,354 |
| Income taxes | 7,888 | 9,648 |
| Short-term debt | 2,056 | 1,380 |
| Long-term debt | 16,732 | 17,172 |
| Other liabilities(1) | 16,498 | 16,619 |
| Notes issued by consolidated variable interest entities (includes $609 and $1,196 measured at fair value under the fair value option at June 30, 2018 and December 31, 2017, respectively)(1) | 937 | 1,518 |
| Separate account liabilities | 298,658 | 306,617 |
| Total liabilities | 771,268 | 777,625 |
| COMMITMENTS AND CONTINGENT LIABILITIES (See Note 14) | | |
| EQUITY | | |
| Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued) | 0 | 0 |

| | | |
|---|---|---|
| Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,339 shares issued at both June 30, 2018 and December 31, 2017) | 6 | 6 |
| Additional paid-in capital | 24,763 | 24,769 |
| Common Stock held in treasury, at cost (242,400,008 and 230,537,166 shares at June 30, 2018 and December 31, 2017, respectively) | (16,905) | (16,284) |
| Accumulated other comprehensive income (loss) | 11,655 | 17,074 |
| Retained earnings | 28,713 | 28,671 |
| Total Prudential Financial, Inc. equity | 48,232 | 54,236 |
| Noncontrolling interests | 360 | 275 |
| Total equity | 48,592 | 54,511 |
| TOTAL LIABILITIES AND EQUITY | $819,860 | $ 832,136 |

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

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

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Operations
Three and Six Months Ended June 30, 2018 and 2017 (in millions, except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| REVENUES | | | | |
| Premiums | $7,438 | $8,326 | $14,749 | $14,807 |
| Policy charges and fee income | 1,480 | 725 | 2,984 | 2,258 |
| Net investment income | 4,096 | 4,089 | 8,094 | 8,150 |
| Asset management and service fees | 1,010 | 973 | 2,036 | 1,924 |
| Other income (loss) | (54) | 420 | (561) | 637 |
| Realized investment gains (losses), net: | | | | |
| Other-than-temporary impairments on fixed maturity securities | (58) | (53) | (97) | (110) |
| Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income | 0 | 7 | 0 | 10 |
| Other realized investment gains (losses), net | 743 | (1,046) | 1,207 | (565) |
| Total realized investment gains (losses), net | 685 | (1,092) | 1,110 | (665) |
| Total revenues | 14,655 | 13,441 | 28,412 | 27,111 |
| BENEFITS AND EXPENSES | | | | |
| Policyholders’ benefits | 9,512 | 8,328 | 17,187 | 15,353 |
| Interest credited to policyholders’ account balances | 894 | 947 | 1,444 | 1,887 |
| Dividends to policyholders | 540 | 491 | 868 | 1,106 |
| Amortization of deferred policy acquisition costs | 613 | 84 | 1,201 | 523 |
| General and administrative expenses | 2,846 | 2,983 | 5,769 | 5,892 |
| Total benefits and expenses | 14,405 | 12,833 | 26,469 | 24,761 |
| INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES | 250 | 608 | 1,943 | 2,350 |
| Total income tax expense (benefit) | 68 | 125 | 420 | 520 |
| INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES | 182 | 483 | 1,523 | 1,830 |
| Equity in earnings of operating joint ventures, net of taxes | 18 | 13 | 41 | 38 |
| NET INCOME (LOSS) | 200 | 496 | 1,564 | 1,868 |
| Less: Income (loss) attributable to noncontrolling interests | 3 | 5 | 4 | 8 |
| NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC. | $197 | $491 | $1,560 | $1,860 |
| EARNINGS PER SHARE | | | | |
| Basic earnings per share-Common Stock: | | | | |
| Net income (loss) attributable to Prudential Financial, Inc. | $0.46 | $1.13 | $3.66 | $4.28 |
| Diluted earnings per share-Common Stock: | | | | |
| Net income (loss) attributable to Prudential Financial, Inc. | $0.46 | $1.12 | $3.62 | $4.21 |
| Dividends declared per share of Common Stock | $0.90 | $0.75 | $1.80 | $1.50 |

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Comprehensive Income
Three and Six Months Ended June 30, 2018 and 2017 (in millions)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| NET INCOME (LOSS) | $200 | $496 | $1,564 | $1,868 |
| Other comprehensive income (loss), before tax: | | | | |
| Foreign currency translation adjustments for the period | (703) | 45 | (41) | 597 |
| Net unrealized investment gains (losses) | (3,326) | 2,491 | (7,992) | 1,682 |
| Defined benefit pension and postretirement unrecognized periodic benefit (cost) | 75 | 55 | 129 | 99 |
| Total | (3,954) | 2,591 | (7,904) | 2,378 |
| Less: Income tax expense (benefit) related to other comprehensive income (loss) | (838) | 872 | (1,682) | 656 |
| Other comprehensive income (loss), net of taxes | (3,116) | 1,719 | (6,222) | 1,722 |
| Comprehensive income (loss) | (2,916) | 2,215 | (4,658) | 3,590 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | (7) | 5 | 7 | (11) |
| Comprehensive income (loss) attributable to Prudential Financial, Inc. | $(2,909) | $2,210 | $(4,665) | $3,601 |

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Equity
Six Months Ended June 30, 2018 and 2017 (in millions)

| | Prudential Financial, Inc. Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Retained Earnings | Common Stock Held In Treasury | Accumulated Other Comprehensive Income (Loss) | Total Prudential Financial, Inc. Equity | Noncontrolling Interests | Total Equity |
| Balance, December 31, 2017 | $6 | $24,769 | $28,671 | $(16,284) | $ 17,074 | $ 54,236 | $ 275 | $54,511 |
| Cumulative effect of adoption of ASU 2016-01 | | | 904 | | (847) | 57 | | 57 |
| Cumulative effect of adoption of ASU 2018-02 | | | (1,653) | | 1,653 | 0 | | 0 |
| Common Stock acquired | | | | (750) | | (750) | | (750) |
| Contributions from noncontrolling interests | | | | | | | 99 | 99 |
| Distributions to noncontrolling interests | | | | | | | (21) | (21) |
| Consolidations (deconsolidations) of noncontrolling interests | | | | | | | 0 | 0 |
| Stock-based compensation programs | | (6) | | 129 | | 123 | | 123 |
| Dividends declared on Common Stock | | | (769) | | | (769) | | (769) |
| Comprehensive income: | | | | | | | | |
| Net income (loss) | | | 1,560 | | | 1,560 | 4 | 1,564 |
| Other comprehensive income (loss), net of tax | | | | | (6,225) | (6,225) | 3 | (6,222) |
| Total comprehensive income (loss) | | | | | | (4,665) | 7 | (4,658) |
| Balance, June 30, 2018 | $6 | $24,763 | $28,713 | $(16,905) | $ 11,655 | $ 48,232 | $ 360 | $48,592 |

| | Prudential Financial, Inc. Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Retained Earnings | Common Stock Held In Treasury | Accumulated Other Comprehensive Income (Loss) | Total Prudential Financial, Inc. Equity | Noncontrolling Interests | Total Equity |
| Balance, December 31, 2016 | $6 | $24,606 | $21,946 | $(15,316) | $ 14,621 | $ 45,863 | $ 225 | $46,088 |
| Cumulative effect of adoption of accounting changes | | 5 | (5) | | | 0 | | 0 |
| Elimination of Gibraltar Life reporting lag | | | 167 | | | 167 | | 167 |
| Common Stock acquired | | | | (625) | | (625) | | (625) |
| Contributions from noncontrolling interests | | | | | | | 8 | 8 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Distributions to noncontrolling interests | | | | | | | (27) | (27) |
| Consolidations (deconsolidations) of noncontrolling interests | | | | | | | 1 | 1 |
| Stock-based compensation programs | | 60 | | 200 | | 260 | | 260 |
| Dividends declared on Common Stock | | | (655) | | | (655) | | (655) |
| Comprehensive income: | | | | | | | | |
| Net income (loss) | | | 1,860 | | | 1,860 | 8 | 1,868 |
| Other comprehensive income (loss), net of tax | | | | | 1,741 | 1,741 | (19) | 1,722 |
| Total comprehensive income (loss) | | | | | | 3,601 | (11) | 3,590 |
| Balance, June 30, 2017 | $6 | $24,671 | $23,313 | $(15,741) | $16,362 | $48,611 | $196 | $48,807 |

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Cash Flows
Six Months Ended June 30, 2018 and 2017 (in millions)

| | 2018 | 2017 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | $1,564 | $1,868 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Realized investment (gains) losses, net | (1,110) | 665 |
| Policy charges and fee income | (1,058) | (1,263) |
| Interest credited to policyholders' account balances | 1,444 | 1,887 |
| Depreciation and amortization | 48 | 107 |
| (Gains) losses on assets supporting experience-rated contractholder liabilities, net(1) | 596 | (245) |
| Change in: | | |
| Deferred policy acquisition costs | (203) | (957) |
| Future policy benefits and other insurance liabilities | 5,762 | 3,949 |
| Income taxes | (96) | 559 |
| Derivatives, net | (1,041) | (1,490) |
| Other, net(1) | 769 | (369) |
| Cash flows from (used in) operating activities(1) | 6,675 | 4,711 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from the sale/maturity/prepayment of: | | |
| Fixed maturities, available-for-sale | 30,599 | 28,990 |
| Fixed maturities, held-to-maturity | 56 | 89 |
| Fixed maturities, trading(1) | 410 | 897 |
| Assets supporting experience-rated contractholder liabilities(1) | 9,650 | 17,636 |
| Equity securities(1) | 1,965 | 1,984 |
| Commercial mortgage and other loans | 2,572 | 2,630 |
| Policy loans | 1,176 | 1,309 |
| Other invested assets(1) | 908 | 591 |
| Short-term investments(1) | 18,190 | 17,329 |
| Payments for the purchase/origination of: | | |
| Fixed maturities, available-for-sale | (34,922) | (34,153) |
| Fixed maturities, trading(1) | (483) | (1,080) |
| Assets supporting experience-rated contractholder liabilities(1) | (9,560) | (17,580) |
| Equity securities(1) | (1,826) | (1,646) |
| Commercial mortgage and other loans | (5,525) | (4,494) |
| Policy loans | (1,002) | (915) |
| Other invested assets | (1,154) | (769) |
| Short-term investments(1) | (17,138) | (13,348) |
| Acquisition of business, net of cash acquired | 0 | (64) |
| Derivatives, net | (271) | 244 |
| Other, net(1) | (134) | (297) |
| Cash flows from (used in) investing activities(1) | (6,489) | (2,647) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Policyholders' account deposits | 14,826 | 13,648 |
| Policyholders' account withdrawals | (14,076) | (12,706) |
| Net change in securities sold under agreements to repurchase and cash collateral for loaned securities | 1,094 | 914 |
| Cash dividends paid on Common Stock | (769) | (653) |

| | | |
|---|---|---|
| Net change in financing arrangements (maturities 90 days or less) | (103) | 46 |
| Common Stock acquired | (739) | (612) |
| Common Stock reissued for exercise of stock options | 74 | 161 |
| Proceeds from the issuance of debt (maturities longer than 90 days) | 1,194 | 321 |
| Repayments of debt (maturities longer than 90 days) | (848) | (216) |
| Other, net | (244) | (451) |
| Cash flows from (used in) financing activities | 409 | 452 |
| Effect of foreign exchange rate changes on cash balances | (71) | 110 |
| NET INCREASE IN CASH, CASH EQUIVALENTS RESTRICTED CASH AND RESTRICTED CASH EQUIVALENT(1) | 524 | 2,626 |
| CASH, CASH EQUIVALENTS RESTRICTED CASH AND RESTRICTED CASH EQUIVALENT, BEGINNING OF YEAR(1) | 14,536 | 14,181 |
| CASH, CASH EQUIVALENTS RESTRICTED CASH AND RESTRICTED CASH EQUIVALENT, END OF PERIOD(1) | $15,060 | $16,807 |
| NON-CASH TRANSACTIONS DURING THE PERIOD | | |
| Treasury Stock shares issued for stock-based compensation programs | $132 | $98 |
| Significant Pension Risk Transfer transactions: | | |
| Assets received, excluding cash and cash equivalents | $0 | $1,294 |
| Liabilities assumed | 977 | 1,685 |
| Net cash received | $977 | $391 |
| Acquisition: | | |
| Assets acquired, excluding cash and cash equivalents | $0 | $196 |
| Liabilities assumed | 0 | 132 |
| Net cash paid on acquisition | $0 | $64 |
| RECONCILIATION TO STATEMENT OF FINANCIAL POSITION | | |
| Cash and cash equivalents | $14,918 | $16,605 |
| Restricted cash and restricted cash equivalents (included in “Other assets”) | 142 | 202 |
| Total cash, cash equivalents restricted cash and restricted cash equivalents | $15,060 | $16,807 |

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

See Notes to Unaudited Interim Consolidated Financial Statements

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

1. BUSINESS AND BASIS OF PRESENTATION

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

The Company's principal operations are comprised of five divisions, which together encompass seven segments, and its Corporate and Other operations. The U.S. Individual Solutions division consists of the Individual Annuities and Individual Life segments. The U.S. Workplace Solutions division consists of the Retirement and Group Insurance segments. The PGIM division is comprised of the PGIM segment, the global investment management businesses of the Company (retitled from the "Investment Management division" and the "Investment Management segment" effective in the second quarter of 2018). The International Insurance division is comprised of the International Insurance segment, and the Closed Block division is comprised of the Closed Block segment. The Closed Block division is accounted for as a divested business that is reported separately from the divested businesses that are included in the Company's Corporate and Other operations. The Company's Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested, excluding the Closed Block division.

Basis of Presentation

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

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

Elimination of Gibraltar Life Reporting Lag

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

Effective January 1, 2018, the Company converted its Gibraltar Life operations to a December 31 fiscal year end. This action eliminated the one-month reporting lag so that the reporting dates and periods of financial balances and results of Gibraltar Life are consistent with those of the Company. The establishment of a new fiscal year end for Gibraltar Life is considered a change in accounting principle to a preferable method and requires retrospective application. The Company believes this change in accounting principle is preferable given that it aligns the reporting dates of Prudential Financial and its subsidiaries which allows for more timely and consistent basis of reporting the financial position and results of Gibraltar Life. In order to effect this elimination, the Company restated prior periods' equity which increased "Retained Earnings" by approximately $167 million as of December 31, 2015, 2016 and 2017. The impact to the Statements of Operations, Statements of Cash Flows, Statements of Comprehensive Income and other balance sheet captions, as a result of the elimination of the reporting lag, was not material for any of the periods presented.

Use of Estimates

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

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

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Recent Accounting Pronouncements

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

Adoption of ASU 2016-01

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

* — New line item effective January 1, 2018.

Strikethrough — Eliminated line item effective January 1, 2018.

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

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

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

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

(2) Cumulative-effect Adjustment Upon Adoption

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

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

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

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

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(3) Changes to Accounting Policies

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

ASSETS

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

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

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

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

REVENUES AND BENEFITS AND EXPENSES

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

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

Adoption of ASU 2014-09

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

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

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

For the three months and six months ended June 30, 2018, respectively, asset management and service fee revenues included $855 million and $1,717 million of asset-based management fees, $6 million and $11 million of performance-based incentive fees, and $149 million and $308 million of other fees. For the three months and six months ended June 30, 2017, respectively, asset management and service fee revenues included $816 million and $1,612 million of asset-based management fees, $5 million and $12 million of performance-based incentive fees, and $152 million and $300 million of other fees. These fees predominantly relate to investment management activities but also include certain asset-based fees associated with insurance contracts. In accordance with the provisions of the ASU, the comparative information for the prior period was not restated and continues to be reported under the accounting standards in effect for that period.

Other ASU adopted during the six months ended June 30, 2018

| Standard | Description | Effective date and method of adoption | Effect on the financial statements or other significant matters |
|---|---|---|---|
| ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a Consensus of the Emerging Issues Task Force) | This ASU addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard provides clarity on the treatment of eight specifically defined types of cash inflows and outflows. | January 1, 2018 using the retrospective method (with early adoption permitted provided that all amendments are adopted in the same period). | Adoption of the ASU did not have a significant impact on the Company’s Consolidated Financial Statements and Notes to the Consolidated Financial Statements. |
| ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash | In November 2016, the FASB issued this ASU to address diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing, or financing activities, or as a combination of those activities in the Statement of Cash Flows. The ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories will no longer be presented in the Statement of Cash Flows. | January 1, 2018 using the retrospective method (with early adoption permitted). | Adoption of the ASU did not have a significant impact on the Company’s Consolidated Financial Statements and Notes to the Consolidated Financial Statements. |
| ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | In February 2018, this ASU was issued following the enactment of the Tax Act of 2017. This ASU allows an entity to elect a reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Act of 2017. | January 1, 2019 with early adoption permitted. The ASU should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act of 2017 is recognized. | The Company early adopted the ASU effective January 1, 2018 and elected to apply the ASU in the period of adoption subsequent to recording the adoption impacts of ASU 2016-01 as described above. As a result, the Company reclassified stranded effects resulting from the Tax Act of 2017 by increasing accumulated other comprehensive income and decreasing retained earnings, each by $1,653 million. Stranded effects unrelated to the Tax Act of 2017 are generally released from accumulated |

other comprehensive income when an entire portfolio of the type of item related to the stranded effect is liquidated, sold or extinguished (i.e., portfolio approach).

ASU issued but not yet adopted as of June 30, 2018

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

| Standard | Description | Effective date and method of adoption | Effect on the financial statements or other significant matters |
|---|---|---|---|
| ASU 2016-02, Leases (Topic 842) | This ASU ensures that assets and liabilities from all outstanding lease contracts are recognized on the balance sheet (with limited exception). The ASU substantially changes a Lessee's accounting for leases and requires the recording on balance sheet of a "right-of-use" asset and liability to make lease payments for most leases. A Lessee will continue to recognize expense in its income statement in a manner similar to the requirements under the current lease accounting standard. For Lessors, the standard modifies classification criteria and accounting for sales-type and direct financing leases and requires a Lessor to derecognize the carrying value of the leased asset that is considered to have been transferred to a Lessee and record a lease receivable and residual asset ("receivable and residual" approach). The standard also eliminates the real estate specific provisions of the current standard (i.e., sale-leaseback). | January 1, 2019 using either the modified retrospective method with a cumulative effect adjustment as of the earliest period presented or the optional transition method with a cumulative effect adjustment recorded as of the beginning of the fiscal year of adoption. Early adoption is 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. Upon adoption, we expect to apply the optional transition method and record a right-of-use asset and liability on our balance sheet related to existing operating leases. Any new lease arrangements and/or significant modifications entered into subsequent to the adoption date will be accounted for in accordance with the new standard. |
| 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 | January 1, 2020 using the modified retrospective method which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. However, prospective application is required for purchased credit deteriorated assets previously accounted for under ASU 310-30 and for debt securities for which an OTTI was recognized prior to the date of adoption. Early adoption is permitted | The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. |

| | | | |
|---|---|---|---|
| | 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. | beginning January 1, 2019. | |
| ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment | This ASU simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test in current U.S. GAAP, which measures a goodwill impairment by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of the goodwill. Under the ASU, a goodwill impairment should be recorded for the amount by which the carrying amount of a reporting unit exceeds its fair value (capped by the total amount of goodwill allocated to the reporting unit). | January 1, 2020 using the prospective method (with early adoption permitted). | The Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. |

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

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

3. INVESTMENTS

Fixed Maturity Securities

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

| | June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | OTTI in AOCI(4) |
| | (in millions) | | | | |
| Fixed maturities, available-for-sale: | | | | | |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | $22,471 | $ 2,987 | $ 613 | $24,845 | $ 0 |
| Obligations of U.S. states and their political subdivisions | 9,548 | 771 | 40 | 10,279 | 0 |
| Foreign government bonds | 93,464 | 15,787 | 414 | 108,837 | 0 |
| U.S. corporate public securities | 79,744 | 4,674 | 2,058 | 82,360 | (4 ) |
| U.S. corporate private securities(1) | 32,171 | 1,269 | 556 | 32,884 | (11 ) |
| Foreign corporate public securities | 26,949 | 2,290 | 355 | 28,884 | (5 ) |
| Foreign corporate private securities | 24,099 | 622 | 760 | 23,961 | 0 |
| Asset-backed securities(2) | 12,860 | 195 | 24 | 13,031 | (172 ) |
| Commercial mortgage-backed securities | 13,093 | 58 | 305 | 12,846 | 0 |
| Residential mortgage-backed securities(3) | 3,149 | 118 | 43 | 3,224 | (1 ) |
| Total fixed maturities, available-for-sale(1) | $317,548 | $ 28,771 | $ 5,168 | $341,151 | $ (193 ) |

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

| | June 30, 2018 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (in millions) | | | |
| Fixed maturities, held-to-maturity: | | | | |
| Foreign government bonds | $878 | $ 271 | $ 0 | $1,149 |
| Foreign corporate public securities | 662 | 67 | 0 | 729 |
| Foreign corporate private securities(5) | 85 | 3 | 0 | 88 |
| Commercial mortgage-backed securities | 0 | 0 | 0 | 0 |
| Residential mortgage-backed securities(3) | 395 | 27 | 0 | 422 |
| Total fixed maturities, held-to-maturity(5) | $2,020 | $ 368 | $ 0 | $2,388 |

__________

(1) Excludes notes with amortized cost of $3,666 million (fair value, $3,666 million), which have been offset with the associated payables under a netting agreement.

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

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

(4) Represents the amount of unrealized losses remaining in AOCI, from the impairment measurement date. Amount excludes $409 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 $4,753 million (fair value, $4,754 million), which have been offset with the associated payables under a netting agreement.

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

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(1) Excludes notes with amortized cost of $2,660 million (fair value, $2,660 million), which have been offset with the associated payables under a netting agreement.

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

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

(4) Represents the amount of unrealized losses remaining in AOCI, from the impairment measurement date. Amount excludes $553 million of net unrealized gains on impaired available-for-sale securities and $2 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(5) Excludes notes with amortized cost of $4,627 million (fair value, $4,913 million), which have been offset with the associated payables under a netting agreement.

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

| | June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than Twelve Months | | Twelve Months or More | | Total | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| | (in millions) | | | | | |
| Fixed maturities(1): | | | | | | |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | $5,105 | $ 125 | $4,940 | $ 488 | $10,045 | $ 613 |
| Obligations of U.S. states and their political subdivisions | 1,514 | 25 | 252 | 15 | 1,766 | 40 |
| Foreign government bonds | 5,039 | 221 | 2,737 | 193 | 7,776 | 414 |
| U.S. corporate public securities | 36,466 | 1,451 | 5,579 | 607 | 42,045 | 2,058 |
| U.S. corporate private securities | 14,045 | 382 | 2,242 | 174 | 16,287 | 556 |
| Foreign corporate public securities | 7,626 | 242 | 1,348 | 113 | 8,974 | 355 |
| Foreign corporate private securities | 9,568 | 357 | 3,161 | 403 | 12,729 | 760 |
| Asset-backed securities | 6,825 | 19 | 285 | 5 | 7,110 | 24 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial mortgage-backed securities | 6,705 | 165 | 2,057 | 140 | 8,762 | 305 |
| Residential mortgage-backed securities | 1,149 | 29 | 292 | 14 | 1,441 | 43 |
| Total | $94,042 | $ 3,016 | $22,893 | $ 2,152 | $116,935 | $ 5,168 |

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(1) Includes $13 million of fair value and less than $1 million of gross unrealized losses, which are not reflected in AOCI, on securities classified as held-to-maturity, as of June 30, 2018.

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

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

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

As of June 30, 2018 and December 31, 2017, the gross unrealized losses on fixed maturity securities were composed of $4,639 million and $1,470 million, respectively, related to “1” highest quality or “2” high quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and $529 million and $306 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of June 30, 2018, the $2,152 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in U.S. government bonds and in the Company’s corporate securities within the consumer non-cyclical and utility sectors. As of December 31, 2017, the $1,443 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in U.S. government bonds, foreign government bonds and in the Company’s corporate securities within the energy, utility and consumer non-cyclical sectors. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, the Company concluded that an adjustment to earnings for OTTI for these fixed maturity securities was not warranted at either June 30, 2018 or December 31, 2017. These conclusions were based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to general credit spread widening, increases in interest rates and foreign currency exchange rate movements. As of June 30, 2018, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

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

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

| | June 30, 2018 | | | |
|---|---|---|---|---|
| | Available-for-Sale | | Held-to-Maturity | |
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (in millions) | | | |
| Fixed maturities: | | | | |
| Due in one year or less | $10,769 | $11,156 | $7 | $7 |
| Due after one year through five years | 50,932 | 53,917 | 171 | 176 |
| Due after five years through ten years | 63,671 | 66,989 | 572 | 636 |
| Due after ten years(1) | 163,074 | 179,988 | 875 | 1,147 |
| Asset-backed securities | 12,860 | 13,031 | 0 | 0 |
| Commercial mortgage-backed securities | 13,093 | 12,846 | 0 | 0 |
| Residential mortgage-backed securities | 3,149 | 3,224 | 395 | 422 |
| Total | $317,548 | $341,151 | $2,020 | $2,388 |

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(1) Excludes available-for-sale notes with amortized cost of $3,666 million (fair value, $3,666 million) and held-to-maturity notes with amortized cost of $4,753 million (fair value, $4,754 million), which have been offset with the associated payables under a netting agreement.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in millions) | | | |
| Fixed maturities, available-for-sale: | | | | |
| Proceeds from sales(1) | $9,489 | $8,157 | $19,074 | $15,887 |
| Proceeds from maturities/prepayments | 6,553 | 7,546 | 11,779 | 13,420 |
| Gross investment gains from sales and maturities | 410 | 410 | 784 | 801 |
| Gross investment losses from sales and maturities | (187) | (135) | (444) | (298) |
| OTTI recognized in earnings(2) | (58) | (46) | (97) | (100) |
| Fixed maturities, held-to-maturity: | | | | |
| Proceeds from maturities/prepayments(3) | $23 | $39 | $59 | $89 |

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(1) Includes $254 million and $317 million of non-cash related proceeds due to the timing of trade settlements for the six months ended June 30, 2018 and 2017, respectively.

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

(3) Includes $3 million and $0 million of non-cash related proceeds due to the timing of trade settlements for the six months ended June 30, 2018 and 2017, respectively.

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

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

| | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| | (in millions) | | | |
| Credit loss impairments: | | | | |
| Balance, beginning of period | $203 | $ 319 | $ 350 | $ 359 |
| New credit loss impairments | 0 | 0 | 7 | 7 |
| Additional credit loss impairments on securities previously impaired | 0 | 0 | 0 | 1 |
| Increases due to the passage of time on previously recorded credit losses | 4 | 6 | 4 | 7 |
| Reductions for securities which matured, paid down, prepaid or were sold during the period | (42 ) | (155 ) | (7 ) | (16 ) |
| Reductions for securities impaired to fair value during the period(1) | 0 | (4 ) | (11 ) | (14 ) |
| Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected | (2 ) | (3 ) | (2 ) | (3 ) |
| Balance, end of period | $163 | $ 163 | $ 341 | $ 341 |

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

Assets Supporting Experience-Rated Contractholder Liabilities

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

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amortized Cost or Cost | Fair Value | Amortized Cost or Cost | Fair Value |
| | (in millions) | | | |
| Short-term investments and cash equivalents | $340 | $340 | $245 | $245 |
| Fixed maturities: | | | | |
| Corporate securities | 13,263 | 13,140 | 13,816 | 14,073 |
| Commercial mortgage-backed securities | 2,390 | 2,350 | 2,294 | 2,311 |
| Residential mortgage-backed securities(1) | 888 | 867 | 961 | 966 |
| Asset-backed securities(2) | 1,470 | 1,493 | 1,363 | 1,392 |
| Foreign government bonds | 1,063 | 1,061 | 1,050 | 1,057 |
| U.S. government authorities and agencies and obligations of U.S. states | 579 | 619 | 357 | 410 |
| Total fixed maturities | 19,653 | 19,530 | 19,841 | 20,209 |
| Equity securities | 1,367 | 1,627 | 1,278 | 1,643 |
| Total assets supporting experience-rated contractholder liabilities | $21,360 | $21,497 | $21,364 | $22,097 |

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

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

The net change in unrealized gains (losses) from assets supporting experience-rated contractholder liabilities still held at period end, recorded within "Other income," was $(198) million and $183 million during the three months ended June 30, 2018 and 2017, respectively, and $(596) million and $229 million during the six months ended June 30, 2018 and 2017, respectively.

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

Equity Securities

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within "Other income," was $(80) million and $11 million during the three months ended June 30, 2018 and 2017, respectively.

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within "Other income," was $(271) million and $54 million during the six months ended June 30, 2018 and 2017, respectively.

Concentrations of Financial Instruments

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

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

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (in millions) | | | |
| Investments in Japanese government and government agency securities: | | | | |
| Fixed maturities, available-for-sale | $69,248 | $81,731 | $64,628 | $76,311 |
| Fixed maturities, held-to-maturity | 857 | 1,122 | 844 | 1,103 |
| Fixed maturities, trading | 23 | 23 | 23 | 23 |
| Assets supporting experience-rated contractholder liabilities | 676 | 686 | 657 | 667 |
| Total | $70,804 | $83,562 | $66,152 | $78,104 |

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| | (in millions) | | | |
| Investments in South Korean government and government agency securities: | | | | |
| Fixed maturities, available-for-sale | $9,646 | $10,988 | $9,425 | $10,989 |
| Fixed maturities, held-to-maturity | 0 | 0 | 0 | 0 |
| Fixed maturities, trading | 0 | 0 | 0 | 0 |
| Assets supporting experience-rated contractholder liabilities | 15 | 15 | 15 | 15 |
| Total | $9,661 | $11,003 | $9,440 | $11,004 |

Commercial Mortgage and Other Loans

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

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Amount (in millions) | % of Total | Amount (in millions) | % of Total |
| Commercial mortgage and agricultural property loans by property type: | | | | |
| Office | $13,435 | 23.2 % | $12,670 | 22.9 % |
| Retail | 8,707 | 15.1 | 8,543 | 15.5 |
| Apartments/Multi-Family | 16,194 | 28.0 | 15,465 | 28.0 |
| Industrial | 10,609 | 18.3 | 9,451 | 17.1 |
| Hospitality | 1,965 | 3.4 | 2,067 | 3.7 |
| Other | 3,784 | 6.5 | 3,888 | 7.0 |
| Total commercial mortgage loans | 54,694 | 94.5 | 52,084 | 94.2 |
| Agricultural property loans | 3,206 | 5.5 | 3,203 | 5.8 |
| Total commercial mortgage and agricultural property loans by property type | 57,900 | 100.0% | 55,287 | 100.0% |
| Valuation allowance | (119) | | (100) | |
| Total net commercial mortgage and agricultural property loans by property type | 57,781 | | 55,187 | |
| Other loans: | | | | |
| Uncollateralized loans | 666 | | 663 | |
| Residential property loans | 176 | | 196 | |
| Other collateralized loans | 4 | | 5 | |
| Total other loans | 846 | | 864 | |
| Valuation allowance | (5) | | (6) | |
| Total net other loans | 841 | | 858 | |
| Total commercial mortgage and other loans(1) | $58,622 | | $56,045 | |

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(1) Includes loans held for sale which are carried at fair value and are collateralized primarily by apartment complexes. As of June 30, 2018 and December 31, 2017, the net carrying value of these loans was $330 million and $593 million, respectively.

As of June 30, 2018, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States (with the largest concentrations in California (28%), Texas (9%) and New York (8%) and included loans secured by properties in Europe (6%), Australia (1%) and Asia (1%).

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

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

| | June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial Mortgage Loans | Agricultural Property Loans | Residential Property Loans | Other Collateralized Loans | Uncollateralized Loans | Total |
| | (in millions) | | | | | |
| Allowance for credit losses: | | | | | | |
| Balance, beginning of year | $97 | $ 3 | $ 1 | $ 0 | $ 5 | $106 |
| Addition to (release of) allowance for losses | 19 | 0 | 0 | 0 | (1) | 18 |
| Charge-offs, net of recoveries | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in foreign exchange | 0 | 0 | 0 | 0 | 0 | 0 |
| Total ending balance | $116 | $ 3 | $ 1 | $ 0 | $ 4 | $124 |

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

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

| | June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Commercial Mortgage Loans | Agricultural Property Loans | Residential Property Loans | Other Collateralized Loans | Uncollateralized Loans | Total |
| | (in millions) | | | | | |
| Allowance for credit losses: | | | | | | |
| Individually evaluated for impairment | $20 | $ 0 | $ 0 | $ 0 | $ 0 | $ 20 |
| Collectively evaluated for impairment | 96 | 3 | 1 | 0 | 4 | 104 |
| Total ending balance(1) | $116 | $ 3 | $ 1 | $ 0 | $ 4 | $ 124 |
| | | | | | | |
| Recorded investment(2): | | | | | | |
| Individually evaluated for impairment | $70 | $ 35 | $ 0 | $ 0 | $ 2 | $ 107 |
| Collectively evaluated for impairment | 54,624 | 3,171 | 176 | 4 | 664 | 58,639 |
| Total ending balance(1) | | | | | | |