

PRUDENTIAL FINANCIAL INC

Form 10-Q

November 04, 2016

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the Transition Period from _____ to _____

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

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

As of October 31, 2016, 430 million shares of the registrant's Common Stock (par value \$0.01) were outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements:</u>	
<u>Unaudited Interim Consolidated Statements of Financial Position as of September 30, 2016 and December 31, 2015</u>	1
<u>Unaudited Interim Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015</u>	2
<u>Unaudited Interim Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015</u>	3
<u>Unaudited Interim Consolidated Statements of Equity for the nine months ended September 30, 2016 and 2015</u>	4
<u>Unaudited Interim Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015</u>	5
<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	6
<u>1. Business and Basis of Presentation</u>	6
<u>2. Significant Accounting Policies and Pronouncements</u>	7
<u>3. Acquisitions</u>	10
<u>4. Investments</u>	11
<u>5. Variable Interest Entities</u>	30
<u>6. Closed Block</u>	32
<u>7. Equity</u>	34
<u>8. Earnings Per Share</u>	38
<u>9. Short-Term and Long-Term Debt</u>	41
<u>10. Employee Benefit Plans</u>	43
<u>11. Segment Information</u>	44
<u>12. Income Taxes</u>	50
<u>13. Fair Value of Assets and Liabilities</u>	50
<u>14. Derivative Instruments</u>	87
<u>15. Commitments and Guarantees, Contingent Liabilities and Litigation and Regulatory Matters</u>	95
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	101
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	187
Item 4. <u>Controls and Procedures</u>	187
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	188
Item 1A. <u>Risk Factors</u>	188
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	188
Item 6. <u>Exhibits</u>	189
<u>SIGNATURES</u>	190
<u>EXHIBIT INDEX</u>	191

Table of Contents

Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "includes," "plans," "assumes," "estimates," "projects," "intends," "should," "will," "shall" or variations of these words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other post-retirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (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 statutory or U.S. GAAP 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, 2015 for discussion of certain risks relating to our businesses and investment in our securities.

Table of Contents

Throughout this Quarterly Report on Form 10-Q, “Prudential Financial” and the “Registrant” refer to Prudential Financial, Inc., the ultimate holding company for all of our companies. “Prudential Insurance” refers to The Prudential Insurance Company of America. “Prudential,” the “Company,” “we” and “our” refer to our consolidated operations.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

September 30, 2016 and December 31, 2015 (in millions, except share amounts)

	September 30, 2016	December 31, 2015
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2016-\$297,745; 2015-\$265,416)(1)	\$ 343,244	\$ 290,323
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2016-\$2,956; 2015-\$2,624)(1)	2,471	2,308
Trading account assets supporting insurance liabilities, at fair value(1)	21,828	20,522
Other trading account assets, at fair value(1)	7,559	14,458
Equity securities, available-for-sale, at fair value (cost: 2016-\$7,197; 2015-\$6,847)	9,765	9,274
Commercial mortgage and other loans (includes \$572 and \$274 measured at fair value under the fair value option at September 30, 2016 and December 31, 2015, respectively)(1)	52,273	50,559
Policy loans	12,031	11,657
Other long-term investments (includes \$1,500 and \$1,322 measured at fair value under the fair value option at September 30, 2016 and December 31, 2015, respectively)(1)	11,346	9,986
Short-term investments	5,254	8,105
Total investments	465,771	417,192
Cash and cash equivalents(1)	24,728	17,612
Accrued investment income(1)	3,279	3,110
Deferred policy acquisition costs	16,975	16,718
Value of business acquired	2,159	2,828
Other assets(1)(2)	15,403	14,225
Separate account assets	291,550	285,570
TOTAL ASSETS	\$ 819,865	\$ 757,255
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 252,228	\$ 224,384
Policyholders’ account balances(1)	146,577	136,784
Policyholders’ dividends	7,482	5,578
Securities sold under agreements to repurchase	6,830	7,882
Cash collateral for loaned securities	5,037	3,496
Income taxes	15,326	8,714
Short-term debt	907	1,216
Long-term debt(2)	18,758	19,594
Other liabilities(1)	15,474	13,517
Notes issued by consolidated variable interest entities (includes \$2,722 and \$8,597 measured at fair value under the fair value option at September 30, 2016 and December 31, 2015, respectively)(1)	2,722	8,597
Separate account liabilities	291,550	285,570
Total liabilities	762,891	715,332

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, 2016 and December 31, 2015)	6	6
Additional paid-in capital	24,520	24,482
Common Stock held in treasury, at cost (228,406,976 and 213,009,970 shares at September 30, 2016 and December 31, 2015, respectively)	(14,989	) (13,814)
Accumulated other comprehensive income (loss)	24,925	12,285
Retained earnings	21,969	18,931
Total Prudential Financial, Inc. equity	56,431	41,890
Noncontrolling interests	543	33
Total equity	56,974	41,923
TOTAL LIABILITIES AND EQUITY	\$ 819,865	\$ 757,255

(1) See Note 5 for details of balances associated with variable interest entities.

(2) Prior period amounts are presented on a basis consistent with the current period presentation, reflecting the adoption of ASU 2015-03. See Note 2 for additional information.

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2016 and 2015 (in millions, except per share amounts)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
REVENUES				
Premiums	\$9,635	\$5,985	\$22,867	\$20,214
Policy charges and fee income	1,540	1,624	4,415	4,482
Net investment income	4,073	3,741	11,532	11,181
Asset management and service fees	955	946	2,780	2,854
Other income	(55)	(397)	8	(58)
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(29)	(81)	(204)	(149)
Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income	0	8	38	39
Other realized investment gains (losses), net	842	1,773	4,293	4,300
Total realized investment gains (losses), net	813	1,700	4,127	4,190
Total revenues	16,961	13,599	45,729	42,863
BENEFITS AND EXPENSES				
Policyholders' benefits	10,155	6,648	25,175	21,739
Interest credited to policyholders' account balances	824	840	3,168	2,749
Dividends to policyholders	569	367	1,433	1,585
Amortization of deferred policy acquisition costs	115	922	1,744	1,846
General and administrative expenses	2,983	2,773	8,821	8,018
Total benefits and expenses	14,646	11,550	40,341	35,937
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	2,315	2,049	5,388	6,926
Total income tax expense (benefit)	501	584	1,300	1,962
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,814	1,465	4,088	4,964
Equity in earnings of operating joint ventures, net of taxes	18	2	38	8
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,832	1,467	4,126	4,972
Income (loss) from discontinued operations, net of taxes	0	0	0	0
NET INCOME (LOSS)	1,832	1,467	4,126	4,972
Less: Income (loss) attributable to noncontrolling interests	5	2	42	65
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	\$1,827	\$1,465	\$4,084	\$4,907
EARNINGS PER SHARE				
Basic earnings per share-Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	\$4.14	\$3.22	\$9.16	\$10.74
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	\$4.14	\$3.22	\$9.16	\$10.74
Diluted earnings per share-Common Stock:	\$4.07	\$3.16	\$9.02	\$10.56

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Income (loss) from continuing operations attributable to Prudential Financial, Inc.				
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	\$4.07	\$3.16	\$9.02	\$10.56
Dividends declared per share of Common Stock	\$0.70	\$0.58	\$2.10	\$1.74

See Notes to Unaudited Interim Consolidated Financial Statements

2

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income

Three and Nine Months Ended September 30, 2016 and 2015 (in millions)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
NET INCOME (LOSS)	\$1,832	\$1,467	\$4,126	\$4,972
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	697	(96)	1,980	(259)
Net unrealized investment gains (losses)	(678)	169	16,642	(4,043)
Defined benefit pension and postretirement unrecognized periodic benefit (cost)	44	47	117	153
Total	63	120	18,739	(4,149)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(240)	68	6,051	(1,501)
Other comprehensive income (loss), net of taxes	303	52	12,688	(2,648)
Comprehensive income (loss)	2,135	1,519	16,814	2,324
Less: Comprehensive income (loss) attributable to noncontrolling interests	50	(5)	90	4
Comprehensive income (loss) attributable to Prudential Financial, Inc.	\$2,085	\$1,524	\$16,724	\$2,320

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity

Nine Months Ended September 30, 2016 and 2015 (in millions)

	Prudential Financial, Inc. Equity								
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Class B 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)	\$0	\$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
Dividends declared on Common Stock			(938)				(938)		(938)
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)	\$0	\$24,925	\$56,431	\$543	\$56,974
	Prudential Financial, Inc. Equity								
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Class B Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2014	\$6	\$24,565	\$14,888	\$(13,088)	\$(651)	\$16,050	\$41,770	\$579	\$42,349
Common Stock acquired				(750)			(750)		(750)
Class B Stock canceled	(167)		(484)		651		0		0
Contributions from noncontrolling interests								28	28
Distributions to noncontrolling interests								(416)	(416)
Consolidations (deconsolidations) of noncontrolling interests								(145)	(145)

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Stock-based compensation programs	(50)	226			176		176
Dividends declared on Common Stock	(796)				(796)		(796)
Comprehensive income:							
Net income (loss)		4,907			4,907	65	4,972
Other comprehensive income (loss), net of tax					(2,587)	(2,587)	(61) (2,648)
Total comprehensive income (loss)					2,320	4	2,324
Balance, September 30, 2015	\$6	\$24,348	\$18,515	\$(13,612)	\$0	\$13,463	\$42,720 \$50 \$42,770

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows
 Nine Months Ended September 30, 2016 and 2015 (in millions)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$4,126	\$4,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(4,127)	(4,190)
Policy charges and fee income	(1,417)	(1,382)
Interest credited to policyholders' account balances	3,168	2,749
Depreciation and amortization	402	126
(Gains) losses on trading account assets supporting insurance liabilities, net	(361)	365
Change in:		
Deferred policy acquisition costs	(391)	(115)
Future policy benefits and other insurance liabilities	7,668	4,655
Other trading account assets	(54)	118
Income taxes	797	1,295
Derivatives, net	7,443	3,048
Other, net	(216)	189
Cash flows from (used in) operating activities	17,038	11,830
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	36,420	35,030
Fixed maturities, held-to-maturity	205	179
Trading account assets supporting insurance liabilities and other trading account assets	24,720	10,620
Equity securities, available-for-sale	2,798	3,707
Commercial mortgage and other loans	4,522	3,904
Policy loans	1,727	1,641
Other long-term investments	457	989
Short-term investments	35,728	57,142
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(49,467)	(33,792)
Trading account assets supporting insurance liabilities and other trading account assets	(26,049)	(13,891)
Equity securities, available-for-sale	(2,413)	(3,115)
Commercial mortgage and other loans	(6,011)	(7,479)
Policy loans	(1,402)	(1,320)
Other long-term investments	(1,537)	(1,620)
Short-term investments	(33,196)	(56,803)
Acquisition of business, net of cash acquired	(532)	0
Derivatives, net	718	(411)
Other, net	228	56
Cash flows from (used in) investing activities	(13,084)	(5,163)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders' account deposits	22,207	17,743
Policyholders' account withdrawals	(17,514)	(16,322)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	488	(1,300)
Cash dividends paid on Common Stock	(939)	(801)
Net change in financing arrangements (maturities 90 days or less)	516	234

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Common Stock acquired	(1,339)	(744)
Class B stock acquired	(119)	(651)
Common Stock reissued for exercise of stock options	112	158
Proceeds from the issuance of debt (maturities longer than 90 days)	1,449	4,577
Repayments of debt (maturities longer than 90 days)	(1,452)	(3,922)
Excess tax benefits from share-based payment arrangements	4	18
Other, net	(611)	(424)
Cash flows from (used in) financing activities	2,802	(1,434)
Effect of foreign exchange rate changes on cash balances	360	56
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,116	5,289
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,612	14,918
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$24,728	\$20,207
NON-CASH TRANSACTIONS DURING THE PERIOD(1)		
Treasury Stock shares issued for stock-based compensation programs	\$113	\$111
Significant Pension Risk Transfer transactions:		
Assets acquired, excluding cash and cash equivalents acquired	\$2,388	\$1,553
Liabilities assumed	3,215	1,919
Net cash received	\$827	\$366

1) See Note 2 for the impact of the adoption of “ASU 2015-02, Consolidation” on the Consolidated Financial Statements.

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

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” or “PFI”) 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.

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, Prudential Financial repurchased and canceled all of the shares of the Class B Stock (the “Class B Repurchase”). As a result, the Company no longer organizes its principal operations into the Financial Services Businesses and the Closed Block Business. 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

As a result of the Class B Repurchase and resulting elimination of the separation of the Financial Services Businesses and the Closed Block Business, these Unaudited Interim Consolidated Financial Statements refer to the divisions and segments of the Company that formerly comprised the Financial Services Businesses as “PFI excluding Closed Block division” and refer to the operations that were formerly included in the Closed Block Business as the “Closed Block division,” except as otherwise noted. Closed Block Business results were associated with the Company’s Class B Stock for periods prior to January 1, 2015.

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. 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. Intercompany balances and transactions have been eliminated.

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, 2015.

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, 2016, include the assets and liabilities of Gibraltar Life as of August 31, 2016. 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, 2016 and 2015, 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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 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) from continuing operations before income taxes and equity in earnings of operating joint ventures,” which is reflected in the three month period ended June 30, 2016 and 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 current period or to any previously reported quarterly or annual financial statements. For additional information on the impact of this adjustment to the Company’s operating segments, see Note 11.

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

This section supplements, 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, 2015.

Adoption of New Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (“FASB”) issued guidance (Accounting Standards Update (“ASU”) 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)) to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2015, and was applied retrospectively. Adoption of the guidance did not have a significant effect on the Company’s financial statement disclosures, see Note 13.

In April 2015, the FASB issued updated guidance (ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs) that simplifies the presentation of debt issuance costs. The pronouncement requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The Company adopted the guidance effective January 1, 2016. Prior period financial information presented in these financial statements has been adjusted to reflect the retrospective adoption of the amended guidance. “Other assets” and “Long-term debt” as previously reported on the Company’s consolidated statements of financial position as of December 31, 2015 were both reduced by \$133 million as a result of this retrospective adoption.

In February 2015, the FASB issued updated guidance (ASU 2015-02, Consolidation (Topic 810): Amendments to Consolidation Analysis) that modifies the rules regarding consolidation. The pronouncement eliminates specialized guidance for limited partnerships and similar legal entities, and removes the indefinite deferral for certain investment funds. The new guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The Company adopted the updated guidance effective January 1, 2016 and applied the modified retrospective method of adoption, primarily resulting in the deconsolidation of certain of its previously consolidated collateralized loan obligations (“CLOs”), as its fee arrangements are no longer deemed variable interests in these entities. The Company continues to consolidate CLOs where it retains other economic interests which absorb more than an insignificant amount of the CLOs expected variability. The Company also deconsolidated certain investment structures where it is no longer deemed to be the primary beneficiary as the Company, through its equity ownership, no longer has the obligation to absorb losses of the VIE that could be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The impact to the Company’s consolidated statements of financial position upon adoption of the updated guidance was a reduction of \$5.5 billion of “Total assets” (including \$5.1 billion of “Total investments”) and \$5.5 billion of “Total liabilities” (including \$5.1 billion of “Notes issued by consolidated variable interest entities”), with a \$30 million decrease in “Noncontrolling interests” and a \$7 million increase to “Total Prudential Financial, Inc. equity.”

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

In August 2014, the FASB issued updated guidance (ASU 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure) requiring that mortgage loans be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2014, and was applied prospectively. Adoption of the guidance did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

In August 2014, the FASB issued updated guidance (ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity) for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity. Under the guidance, an entity within scope is permitted to measure both the financial assets and financial liabilities of a consolidated collateralized financing entity based on either the fair value of the financial assets or the financial liabilities, whichever is more observable. If adopted, the guidance eliminates the measurement difference that exists when both are measured at fair value. The Company adopted the updated guidance effective January 1, 2016, and applied the modified retrospective method of adoption. The impact to the Company's consolidated statements of financial position upon adoption of the updated guidance was a \$4 million reduction in "Total liabilities" and a \$4 million increase to "Total Prudential Financial, Inc. equity."

In June 2014, the FASB issued updated guidance (ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures) that requires repurchase-to-maturity transactions to be accounted for as secured borrowings and eliminates existing guidance for repurchase financings. The guidance also requires new disclosures for certain transactions accounted for as secured borrowings and for transfers accounted for as sales when the transferor also retains substantially all of the exposure to the economic return on the transferred financial assets. Accounting changes and new disclosures for transfers accounted for as sales under the new guidance were effective for the first interim or annual period beginning after December 15, 2014, and did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures. Disclosures for certain transactions accounted for as secured borrowings were effective for interim periods beginning after March 15, 2015, and are included in Note 4. The Company applied the modified retrospective method of adoption.

In April 2014, the FASB issued updated guidance (ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity) that changes the criteria for reporting discontinued operations and introduces new disclosures. The new guidance became effective for new disposals and new classifications of disposal groups as held for sale that occur within annual periods that began on or after December 15, 2014, and interim periods within those annual periods, and was applied prospectively. Adoption of the guidance did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

In January 2014, the FASB issued updated guidance (ASU 2014-04, Receivables—Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure) for troubled debt restructurings clarifying when an in-substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2014, and was applied prospectively. Adoption of the

guidance did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

In January 2014, the FASB issued updated guidance (ASU 2014-01, Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects) regarding investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. Under the guidance, an entity is permitted to make an accounting policy election to amortize the initial cost of its investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the statement of operations as a component of income tax expense (benefit) if certain conditions are met. The new guidance became effective for annual periods and interim reporting periods within those annual periods that began after December 15, 2014. The Company did not elect the proportional amortization method under this guidance.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Future Adoption of New Accounting Pronouncements

In May 2014, the FASB issued updated guidance (ASU 2014-09, Revenue from Contracts with Customers (Topic 606)) on accounting for revenue recognition. The guidance is based on the core principle that revenue is recognized to depict the transfer of 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 guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from cost incurred to obtain or fulfill a contract. Revenue recognition for insurance contracts and financial instruments is explicitly scoped out of the guidance. In August 2015, the FASB issued an update to defer the original effective date of this guidance. As a result of the deferral, the new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017, and must be applied using one of two retrospective application methods. Early adoption is permitted only for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In May 2015, the FASB issued final guidance (ASU 2015-09, Financial Services—Insurance (Topic 944): Disclosures about Short-Duration Contracts) that aims to enhance disclosures about insurance contracts classified as short-duration. The new disclosure requirements focus on providing users of financial statements with more transparent information about an insurance entity's initial claim estimates and subsequent adjustments to those estimates, methodologies and judgments in estimating claims, and timing, frequency and severity of claims as they relate to short-duration insurance contracts. The new guidance is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016, and is to be applied retrospectively. The Company is currently assessing the impact of the guidance on the Company's financial statement disclosures but has concluded that this guidance will not impact the Company's consolidated financial position or results of operations.

In January 2016, the FASB issued updated guidance (ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities) on the recognition and measurement of financial assets and financial liabilities. The guidance revises an entity's accounting related to the classification and measurement of certain equity investments and the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance also amends certain disclosure requirements associated with the fair value of financial instruments. The new guidance is effective for annual periods and interim reporting periods within those annual periods beginning after December 15, 2017. Early adoption is not permitted except for the provisions related to the presentation of certain fair value changes for financial liabilities measured at fair value. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In February 2016, the FASB issued guidance (ASU 2016-02, Leases (Topic 842)) that ensures assets and liabilities from all outstanding lease contracts are recognized on balance sheet (with limited exception). The guidance 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 guidance. For Lessors, the guidance 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 guidance also eliminates the real estate specific provisions of the current guidance (i.e., sale-leaseback). The new guidance is effective for financial

statements issued for annual reporting periods beginning after December 15, 2018, and for interim periods within those annual periods, with early adoption permitted. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In March 2016, the FASB issued guidance (ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting) to simplify the transition to equity method when an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2016, and for interim periods within those annual periods. The guidance is to be applied prospectively to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method after the effective date. The Company does not expect the adoption of this guidance to have a significant impact on the Company's consolidated financial position, results of operations and financial statement disclosures.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

In March 2016, the FASB issued guidance (ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting) to simplify and improve employee share-based payment accounting. The areas updated include income tax consequences, a policy election related to forfeitures, classification of awards as either equity or liability, and classification of operating and financing activity on the statement of cash flows. The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2016, and for interim periods within those annual periods, with early adoption permitted. The Company does not expect the adoption of this guidance to have a significant impact on the Company's consolidated financial position, results of operations and financial statement disclosures.

In June 2016, the FASB issued guidance (ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments) that 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 guidance also modifies the current other-than-temporary impairment guidance for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces existing guidance for purchased credit deteriorated loans and debt securities. The new guidance is effective for financial statements issued by public entities for annual reporting periods beginning after December 15, 2019, and for interim periods within those annual periods. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In August 2016, the FASB issued guidance (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)) to address diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide clarity on the treatment of eight specifically defined types of cash inflows and outflows. The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2017, and for interim periods within those annual periods, with early adoption permitted, provided that all of the amendments are adopted in the same period. The Company is currently assessing the impact of the guidance on the Company's statement of cash flows.

3. ACQUISITIONS

This section supplements, and should be read in conjunction with, the complete descriptions provided in Note 3 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2015.

Acquisition of Deutsche Bank's India Asset Management Business

In March 2016, the Company and its asset management joint venture partner in India completed the previously announced acquisition of Deutsche Bank's India asset management business through the joint venture. This acquisition, which will expand the Company's investment management expertise, distribution platform and product portfolio in India, did not have a material impact on the Company's financial results.

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 will be accounted for under the equity method and is recorded within “Other assets.” This acquisition will enable the Company to participate in the growing Chilean pension market.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

	September 30, 2016				
	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	\$20,359	\$ 5,403	\$ 37	\$25,725	\$ 0
Obligations of U.S. states and their political subdivisions	8,489	1,382	4	9,867	0
Foreign government bonds	86,008	22,522	130	108,400	0
U.S. corporate public securities	78,592	9,513	489	87,616	(9)
U.S. corporate private securities(1)	29,905	2,789	226	32,468	(20)
Foreign corporate public securities	27,185	3,619	155	30,649	(6)
Foreign corporate private securities	20,645	966	616	20,995	0
Asset-backed securities(2)	10,318	178	121	10,375	(316)
Commercial mortgage-backed securities	11,912	604	15	12,501	(1)
Residential mortgage-backed securities(3)	4,332	319	3	4,648	(3)
Total fixed maturities, available-for-sale(1)	\$297,745	\$ 47,295	\$ 1,796	\$343,244	\$ (355)
Equity securities, available-for-sale	\$7,197	\$ 2,611	\$ 43	\$9,765	

	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity				
Foreign government bonds	\$965	\$ 341	\$ 0	\$1,306
Foreign corporate public securities	717	83	0	800
Foreign corporate private securities(5)	93	4	0	97
Commercial mortgage-backed securities	1	0	0	1
Residential mortgage-backed securities(3)	695	57	0	752
Total fixed maturities, held-to-maturity(5)	\$2,471	\$ 485	\$ 0	\$2,956

(1) Excludes notes with amortized cost of \$1,127 million (fair value, \$1,127 million) which have been offset with the associated payables under a netting agreement.

(2) Includes credit-tranched securities collateralized by 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 \$686 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 \$4,165 million (fair value, \$4,165 million) which have been offset with the associated payables under a netting agreement.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2015				OTTI in AOCI(4)
	Amortized Cost (in millions)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 14,992	\$ 3,544	\$ 19	\$ 18,517	\$ 0
Obligations of U.S. states and their political subdivisions	8,089	747	41	8,795	0
Foreign government bonds	71,849	12,011	147	83,713	1
U.S. corporate public securities	70,979	6,344	1,955	75,368	(3)
U.S. corporate private securities(1)	28,525	2,278	359	30,444	0
Foreign corporate public securities	26,354	2,821	621	28,554	0
Foreign corporate private securities	19,393	739	994	19,138	0
Asset-backed securities(2)	10,121	226	121	10,226	(452)
Commercial mortgage-backed securities	10,337	195	70	10,462	(1)
Residential mortgage-backed securities(3)	4,777	335	6	5,106	(4)
Total fixed maturities, available-for-sale(1)	\$ 265,416	\$ 29,240	\$ 4,333	\$ 290,323	\$ (459)
Equity securities, available-for-sale	\$ 6,847	\$ 2,570	\$ 143	\$ 9,274	

	December 31, 2015			
	Amortized Cost (in millions)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities, held-to-maturity				
Foreign government bonds	\$ 816	\$ 196	\$ 0	\$ 1,012
Foreign corporate public securities	625	62	0	687
Foreign corporate private securities(5)	78	4	0	82
Commercial mortgage-backed securities	33	1	0	34
Residential mortgage-backed securities(3)	756	53	0	809
Total fixed maturities, held-to-maturity(5)	\$ 2,308	\$ 316	\$ 0	\$ 2,624

(1) Excludes notes with amortized cost of \$1,050 million (fair value, \$1,039 million) which have been offset with the associated payables under a netting agreement.

(2) Includes credit-tranched securities collateralized by 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 \$693 million of net unrealized gains on impaired available-for-sale securities and less than \$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 \$3,850 million (fair value, \$4,081 million) which have been offset with the associated payables under a netting agreement.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

	September 30, 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	\$2,818	\$ 37	\$0	\$ 0	\$2,818	\$ 37
Obligations of U.S. states and their political subdivisions	80	1	21	3	101	4
Foreign government bonds	2,133	112	296	18	2,429	130
U.S. corporate public securities	5,907	201	3,237	288	9,144	489
U.S. corporate private securities	1,926	114	1,482	112	3,408	226
Foreign corporate public securities	1,264	41	1,230	114	2,494	155
Foreign corporate private securities	2,692	183	4,773	433	7,465	616
Asset-backed securities	1,287	68	2,712	53	3,999	121
Commercial mortgage-backed securities	1,417	14	148	1	1,565	15
Residential mortgage-backed securities	64	2	89	1	153	3
Total	\$19,588	\$ 773	\$13,988	\$ 1,023	\$33,576	\$ 1,796
Equity securities, available-for-sale	\$699	\$ 42	\$12	\$ 1	\$711	\$ 43

(1) Includes \$14 million of fair value and less than \$1 million of gross unrealized losses at September 30, 2016, on securities classified as held-to-maturity, which is not reflected in AOCI.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2015					
	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	\$3,068	\$ 19	\$ 0	\$ 0	\$3,068	\$ 19
Obligations of U.S. states and their political subdivisions	1,391	40	7	1	1,398	41
Foreign government bonds	1,925	82	411	65	2,336	147
U.S. corporate public securities	24,642	1,396	3,455	559	28,097	1,955
U.S. corporate private securities	6,996	266	802	93	7,798	359
Foreign corporate public securities	5,985	288	1,584	333	7,569	621
Foreign corporate private securities	6,199	340	3,917	654	10,116	994
Asset-backed securities	4,342	33	3,138	88	7,480	121
Commercial mortgage-backed securities	3,888	63	473	7	4,361	70
Residential mortgage-backed securities	558	4	119	2	677	6
Total	\$58,994	\$ 2,531	\$13,906	\$ 1,802	\$72,900	\$ 4,333
Equity securities, available-for-sale	\$1,862	\$ 142	\$ 11	\$ 1	\$1,873	\$ 143

(1) Includes \$0 million of fair value and \$0 million of gross unrealized losses at December 31, 2015, on securities classified as held-to-maturity, which is not reflected in AOCI.

The gross unrealized losses on fixed maturity securities at September 30, 2016 and December 31, 2015, were composed of \$1,324 million and \$3,750 million, respectively, related to high or highest quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and \$472 million and \$583 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. At September 30, 2016, the \$1,023 million of gross unrealized losses of twelve months or more were concentrated in the energy, utility and capital goods sectors of the Company’s corporate securities. At December 31, 2015, the \$1,802 million of gross unrealized losses of twelve months or more were concentrated in the energy, consumer non-cyclical and basic industry 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, 2015, the Company concluded that an adjustment to earnings for OTTI for these securities was not warranted at September 30, 2016 or December 31, 2015. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to general credit spread widening and foreign currency exchange rate movements. At September 30, 2016, the Company does not intend to sell these securities, and it is not more likely than not that the Company will be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

At September 30, 2016, \$9 million of the gross unrealized losses on equity securities represented declines in value of greater than 20%, approximately all of which had been in that position for less than six months. At December 31, 2015, \$19 million of the gross unrealized losses on equity securities represented declines in value of greater than 20%, all of which had been in that 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, 2015, the Company concluded that an adjustment for OTTI for these equity securities was not warranted at September 30, 2016 or December 31, 2015.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The amortized cost and fair value of fixed maturities by contractual maturities at September 30, 2016, are as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Due in one year or less	\$ 10,680	\$ 11,142	\$ 13	\$ 13
Due after one year through five years	47,613	52,034	191	203
Due after five years through ten years	61,574	67,850	610	685
Due after ten years(1)	151,316	184,694	961	1,302
Asset-backed securities	10,318	10,375	0	0
Commercial mortgage-backed securities	11,912	12,501	1	1
Residential mortgage-backed securities	4,332	4,648	695	752
Total	\$ 297,745	\$ 343,244	\$ 2,471	\$ 2,956

Excludes available-for-sale notes with amortized cost of \$1,127 million (fair value, \$1,127 million) and (1)held-to-maturity notes with amortized cost of \$4,165 million (fair value, \$4,165 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 are not due at a single maturity date.

The following table depicts 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:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(in millions)			
Fixed maturities, available-for-sale				
Proceeds from sales(1)	\$ 7,585	\$ 6,016	\$ 21,939	\$ 21,059
Proceeds from maturities/repayments(1)	4,960	4,496	14,583	14,209
Gross investment gains from sales, prepayments and maturities	440	427	1,234	1,401
Gross investment losses from sales and maturities	(46)	(73)	(343)	(170)
Fixed maturities, held-to-maturity				
Gross investment gains from prepayments	\$ 0	\$ 0	\$ 0	\$ 0
Proceeds from maturities/repayments	83	58	208	181
Equity securities, available-for-sale				
Proceeds from sales	\$ 978	\$ 1,181	\$ 2,815	\$ 3,734
Gross investment gains from sales	177	167	425	594
Gross investment losses from sales	(30)	(61)	(137)	(123)
Fixed maturity and equity security impairments				
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(2)	\$(29)	\$(73)	\$(166)	\$(110)
Writedowns for impairments on equity securities	(23)	(60)	(65)	(77)

(1) Includes \$122 million and \$267 million of non-cash related proceeds for the nine months ended September 30, 2016 and 2015, 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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As discussed 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, 2015, a portion of certain OTTI losses on fixed maturity securities is recognized in OCI. For these securities, the net amount recognized in earnings ("credit loss impairments") represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in OCI. The following tables set forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts:

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
	(in millions)	
Balance, beginning of period	\$424	\$ 532
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(76)	(217)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	0	(2)
Credit loss impairments recognized in the current period on securities not previously impaired	0	27
Additional credit loss impairments recognized in the current period on securities previously impaired	0	0
Increases due to the passage of time on previously recorded credit losses	5	17
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(2)	(6)
Balance, end of period	\$351	\$ 351
	(in millions)	
	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Balance, beginning of period	\$751	\$ 781
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(187)	(215)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(6)	(19)
Credit loss impairments recognized in the current period on securities not previously impaired	0	3
Additional credit loss impairments recognized in the current period on securities previously impaired	1	2
Increases due to the passage of time on previously recorded credit losses	1	14
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(3)	(9)

Balance, end of period

\$557 \$ 557

(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.

16

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	\$908	\$908	\$765	\$765
Fixed maturities:				
Corporate securities	13,296	13,773	12,797	12,851
Commercial mortgage-backed securities	1,873	1,952	1,860	1,862
Residential mortgage-backed securities(1)	1,217	1,261	1,411	1,428
Asset-backed securities(2)	1,311	1,327	1,295	1,299
Foreign government bonds	784	813	680	694
U.S. government authorities and agencies and obligations of U.S. states	399	449	326	369
Total fixed maturities	18,880	19,575	18,369	18,503
Equity securities	1,223	1,345	1,030	1,254
Total trading account assets supporting insurance liabilities	\$21,011	\$21,828	\$20,164	\$20,522

(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 \$84 million and \$(251) million during the three months ended September 30, 2016 and 2015, respectively, and \$459 million and \$(517) million during the nine months ended September 30, 2016 and 2015, respectively.

Other Trading Account Assets

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

	September 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	\$27	\$27	\$26	\$26
Fixed maturities	4,783	4,635	11,132	10,764
Equity securities	867	950	1,006	1,098
Other	5	7	12	15
Subtotal	\$5,682	\$5,619	\$12,176	\$11,903
Derivative instruments		1,940		2,555
Total other trading account assets		\$7,559		\$14,458

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 \$49 million and \$(227) million during the three months ended September 30, 2016 and 2015, respectively, and \$210 million and \$(219) million during the nine months ended September 30, 2016 and 2015, 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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of both September 30, 2016 and December 31, 2015, 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 certain securities guaranteed by the U.S. government, as well as the securities disclosed below.

	September 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in millions)				
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	\$65,711	\$82,317	\$53,851	\$61,911
Fixed maturities, held-to-maturity	942	1,276	796	988
Trading account assets supporting insurance liabilities	585	613	492	502
Other trading account assets	17	17	33	33
Total	\$67,255	\$84,223	\$55,172	\$63,434

	September 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(in millions)				
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	\$8,165	\$11,308	\$7,191	\$9,233
Fixed maturities, held-to-maturity	0	0	0	0
Trading account assets supporting insurance liabilities	44	45	44	44
Other trading account assets	0	0	0	0
Total	\$8,209	\$11,353	\$7,235	\$9,277

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Commercial Mortgage and Other Loans

The Company's commercial mortgage and other loans are comprised as follows, as of the dates indicated:

	September 30, 2016		December 31, 2015	
	Amount (in million)	% of Total	Amount (in million)	% of Total
Commercial mortgage and agricultural property loans by property type:				
Office	\$12,137	23.7 %	\$11,226	22.9 %
Retail	8,593	16.7	8,917	18.2
Apartments/Multi-Family	13,247	25.8	12,034	24.5
Industrial	7,806	15.2	7,775	15.9
Hospitality	2,384	4.7	2,513	5.1
Other	4,266	8.3	3,722	7.6
Total commercial mortgage loans	48,433	94.4	46,187	94.2
Agricultural property loans	2,888	5.6	2,859	5.8
Total commercial mortgage and agricultural property loans by property type	51,321	100.0%	49,046	100.0%
Valuation allowance	(99)		(99)	
Total net commercial mortgage and agricultural property loans by property type	51,222		48,947	
Other loans:				
Uncollateralized loans	748		1,012	
Residential property loans	301		301	
Other collateralized loans	11		312	
Total other loans	1,060		1,625	
Valuation allowance	(9)		(13)	
Total net other loans	1,051		1,612	
Total commercial mortgage and other loans(1)	\$52,273		\$50,559	

(1) Includes loans held at fair value.

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States (with the largest concentrations in California (26%), New York (9%) and Texas (9%)) and include loans secured by properties in Europe (4%) and Asia (1%) at September 30, 2016.

Activity in the allowance for credit losses for all commercial mortgage and other loans, as of the dates indicated, is as follows:

	September 30, 2016					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for credit losses, 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	0	0	0	0	0	0

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Change in foreign exchange	0	0	1	0	1	2
Total ending balance	\$97	\$ 2	\$ 3	\$ 0	\$ 6	\$108

19

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2015					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for credit losses, beginning of year	\$104	\$ 1	\$ 5	\$ 0	\$ 9	\$119
Addition to (release of) allowance for losses	(7)	1	(2)	0	1	(7)
Charge-offs, net of recoveries	0	0	0	0	0	0
Change in foreign exchange	0	0	0	0	0	0
Total ending balance	\$97	\$ 2	\$ 3	\$ 0	\$ 10	\$112

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, 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	\$7	\$ 0	\$ 0	\$ 0	\$ 0	\$7
Collectively evaluated for impairment	90	2	3	0	6	101
Loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	\$97	\$ 2	\$ 3	\$ 0	\$ 6	\$108
Recorded Investment(1):						
Gross of reserves: individually evaluated for impairment	\$117	\$ 29	\$ 0	\$ 0	\$ 2	\$148
Gross of reserves: collectively evaluated for impairment	48,316	2,859	301	11	746	52,233
Gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	\$48,433	\$ 2,888	\$ 301	\$ 11	\$ 748	\$52,381

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2015					
	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	\$ 1	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1
Collectively evaluated for impairment	96	2	3	0	10	111
Loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	\$97	\$ 2	\$ 3	\$ 0	\$ 10	\$112
Recorded Investment(1):						
Gross of reserves: individually evaluated for impairment	\$111	\$ 8	\$ 0	\$ 0	\$ 2	\$121
Gross of reserves: collectively evaluated for impairment	46,076	2,851	301	312	1,010	50,550
Gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	\$46,187	\$ 2,859	\$ 301	\$ 312	\$ 1,012	\$50,671

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

Impaired loans include those loans for which it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Impaired commercial mortgage and other loans identified in management's specific review of probable loan losses and the related allowance for losses, as of the dates indicated, are as follows:

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment Before Allowance(2)	Interest Income Recognized(3)
	(in millions)				
With no related allowance recorded:					
Commercial mortgage loans	\$0	\$ 0	\$ 0	\$ 0	\$ 0
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	2	0	0	0
Total with no related allowance	\$0	\$ 2	\$ 0	\$ 0	\$ 0
With an allowance recorded:					
Commercial mortgage loans	\$51	\$ 51	\$ 7	\$ 27	\$ 2
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	0	0	0	0
Total with related allowance	\$51	\$ 51	\$ 7	\$ 27	\$ 2
Total:					
Commercial mortgage loans	\$51	\$ 51	\$ 7	\$ 27	\$ 2
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	2	0	0	0
Total	\$51	\$ 53	\$ 7	\$ 27	\$ 2

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

(2) Average recorded investment represents the average of the beginning-of-period and all subsequent quarterly end-of-period balances.

(3) The interest income recognized is for the year-to-date income regardless of when the impairments occurred.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2015			Average	Interest
	Recorded	Unpaid Principal	Related	Recorded	Income
	Investment	Balance	Allowance	Investment	Recognized
				Before	(3)
				Allowance	
				(2)	
	(in millions)				
With no related allowance recorded:					
Commercial mortgage loans	\$0	\$ 0	\$ 0	\$ 0	\$ 0
Agricultural property loans	0	0	0	2	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	1	0	0	0
Total with no related allowance	\$0	\$ 1	\$ 0	\$ 2	\$ 0
With an allowance recorded:					
Commercial mortgage loans	\$1	\$ 1	\$ 1	\$ 52	\$ 3
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	0	0	0	0
Total with related allowance	\$1	\$ 1	\$ 1	\$ 52	\$ 3
Total:					
Commercial mortgage loans	\$1	\$ 1	\$ 1	\$ 52	\$ 3
Agricultural property loans	0	0	0	2	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	1	0	0	0
Total	\$1	\$ 2	\$ 1	\$ 54	\$ 3

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

(2) Average recorded investment represents the average of the beginning-of-period and all subsequent quarterly end-of-period balances.

(3) The interest income recognized is for the year-to-date income regardless of when the impairments occurred.

The net carrying value of commercial and other loans held for sale by the Company as of September 30, 2016 and December 31, 2015, was \$572 million and \$274 million, respectively. For all of these loans, the Company pre-arranges that it will sell the loan to an investor. As of both September 30, 2016 and December 31, 2015, all of the Company's commercial and other loans held for sale were collateralized, with collateral primarily consisting of apartment complexes.

The following tables set forth certain key credit quality indicators as of September 30, 2016, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Debt Service Coverage Ratio—September 30,
2016

Greater than
1.2X 1.0X to <1.2X Less than
1.0X Total
(in millions)

Loan-to-Value Ratio

0%-59.99%	\$26,467	\$ 411	\$ 306	\$27,184
60%-69.99%	13,954	413	102	14,469
70%-79.99%	6,048	237	101	6,386
Greater than 80%	226	50	118	394
Total commercial mortgage loans	\$46,695	\$ 1,111	\$ 627	\$48,433

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Agricultural property loans

	Debt Service Coverage Ratio—September 30, 2016			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	\$2,643	\$ 124	\$ 17	\$2,784
60%-69.99%	104	0	0	104
70%-79.99%	0	0	0	0
Greater than 80%	0	0	0	0
Total agricultural property loans	\$2,747	\$ 124	\$ 17	\$2,888

Total commercial mortgage and agricultural property loans

	Debt Service Coverage Ratio—September 30, 2016			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	\$29,110	\$ 535	\$ 323	\$29,968
60%-69.99%	14,058	413	102	14,573
70%-79.99%	6,048	237	101	6,386
Greater than 80%	226	50	118	394
Total commercial mortgage and agricultural property loans	\$49,442	\$ 1,235	\$ 644	\$51,321

The following tables set forth certain key credit quality indicators as of December 31, 2015, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

	Debt Service Coverage Ratio—December 31, 2015			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	\$25,978	\$ 515	\$ 207	\$26,700
60%-69.99%	12,191	395	234	12,820
70%-79.99%	5,668	500	97	6,265
Greater than 80%	119	151	132	402
Total commercial mortgage loans	\$43,956	\$ 1,561	\$ 670	\$46,187

Agricultural property loans

Debt Service Coverage
 Ratio—December 31, 2015
 Greater than 1.2X 1.0X to <1.2X Less than 1.0X Total
 (in millions)

Loan-to-Value Ratio	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
0%-59.99%	\$2,587	\$ 84	\$ 3	\$2,674
60%-69.99%	185	0	0	185
70%-79.99%	0	0	0	0
Greater than 80%	0	0	0	0
Total agricultural property loans	\$2,772	\$ 84	\$ 3	\$2,859

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Total commercial mortgage and agricultural property loans

	Debt Service Coverage Ratio—December 31, 2015			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	\$28,565	\$ 599	\$ 210	\$29,374
60%-69.99%	12,376	395	234	13,005
70%-79.99%	5,668	500	97	6,265
Greater than 80%	119	151	132	402
Total commercial mortgage and agricultural property loans	\$46,728	\$ 1,645	\$ 673	\$49,046

The following tables provide an aging of past due commercial mortgage and other loans as of the dates indicated, based upon the recorded investment gross of allowance for credit losses, as well as the amount of commercial mortgage loans on nonaccrual status as of the dates indicated.

September 30, 2016

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)						
Commercial mortgage loans	\$48,429	\$ 0	\$ 0	\$ 4	\$ 4	\$ 48,433	\$ 52
Agricultural property loans	2,886	0	0	2	2	2,888	2
Residential property loans	288	6	2	5	13	301	5
Other collateralized loans	11	0	0	0	0	11	0
Uncollateralized loans	748	0	0	0	0	748	0
Total	\$52,362	\$ 6	\$ 2	\$ 11	\$ 19	\$ 52,381	\$ 59

December 31, 2015

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)						
Commercial mortgage loans	\$46,187	\$ 0	\$ 0	\$ 0	\$ 0	\$ 46,187	\$ 53
Agricultural property loans	2,856	2	0	1	3	2,859	1
Residential property loans	288	7	0	6	13	301	6
Other collateralized loans	312	0	0	0	0	312	0
Uncollateralized loans	1,012	0	0	0	0	1,012	0

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Total	\$50,655	\$ 9	\$ 0	\$ 7	\$ 16	\$ 50,671	\$ 60
-------	----------	------	------	------	-------	-----------	-------

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, 2015, for further discussion regarding nonaccrual status loans.

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, respectively. For the three and nine months ended September 30, 2015, there were \$145 million and \$198 million, respectively, of commercial mortgage and other loans acquired, other than those through direct origination and there were \$0 million and \$18 million, respectively, of commercial mortgage and other loans sold, other than those classified as held-for-sale.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The Company's commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. As of September 30, 2016 and December 31, 2015, the Company had no significant commitments to borrowers that have been involved in a troubled debt restructuring. During the three and nine months ended September 30, 2016 and 2015, there were no new troubled debt restructurings related to commercial mortgage and other loans and no payment defaults on commercial mortgage and other loans that were modified as a troubled debt restructuring within the twelve months preceding. 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, 2015.

As of September 30, 2016, there were no private debt commitments to borrowers that have been involved in a troubled debt restructuring.

As of September 30, 2016, the Company did not have any foreclosed residential real estate property.

Net Investment Income

Net investment income for the three and nine months ended September 30, 2016 and 2015, was from the following sources:

	Three Months Ended September 30, 2016 2015		Nine Months Ended September 30, 2016 2015	
	(in millions)			
Fixed maturities, available-for-sale ⁽¹⁾	\$2,798	\$2,572	\$8,126	\$7,766
Fixed maturities, held-to-maturity ⁽¹⁾	52	51	155	151
Equity securities, available-for-sale	95	87	285	264
Trading account assets	252	304	747	885
Commercial mortgage and other loans	553	580	1,669	1,680
Policy loans	160	156	470	464
Short-term investments and cash equivalents	38	13	105	37
Other long-term investments	300	208	509	589
Gross investment income	4,248	3,971	12,066	11,836
Less: investment expenses	(175)	(230)	(534)	(655)
Net investment income	\$4,073	\$3,741	\$11,532	\$11,181

⁽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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three and nine months ended September 30, 2016 and 2015, were from the following sources:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(in millions)			
Fixed maturities	\$365	\$281	\$725	\$1,121
Equity securities	124	46	223	394
Commercial mortgage and other loans	5	(8)	36	23
Investment real estate	14	0	15	38
Joint ventures and limited partnerships	(14)	(71)	(78)	(80)
Derivatives(1)	323	1,453	3,218	2,688
Other	(4)	(1)	(12)	6
Realized investment gains (losses), net	\$813	\$1,700	\$4,127	\$4,190

(1) Includes the offset of hedged items in qualifying effective hedge relationships prior to maturity or termination.

Net Unrealized Gains (Losses) on Investments by Asset Class

The table below presents net unrealized gains (losses) on investments by asset class as of the dates indicated:

	September 30,	
	2016	2015
	(in millions)	
Fixed maturity securities on which an OTTI loss has been recognized	\$331	\$ 234
Fixed maturity securities, available-for-sale—all other	45,168	24,673
Equity securities, available-for-sale	2,568	2,427
Derivatives designated as cash flow hedges(1)	1,093	1,165
Other investments(2)	(24)	(25)
Net unrealized gains (losses) on investments	\$49,136	\$ 28,474

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

As of September 30, 2016, there were no net unrealized losses on held-to-maturity securities that were previously (2) transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in “Other assets” and losses on notes associated with payables under a netting agreement.

Table of Contents

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 tables set forth the composition of repurchase agreements as of the dates indicated.

	September 30, 2016				
	Remaining Contractual Maturities of the Agreements				
	Overnight & Continuous	Up to 30 Days	30 to 90 Days	Greater than 90 Days	Total
	(in millions)				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$1,146	\$5,091	\$ 0	\$ 0	\$6,237
Obligations of U.S. states and their political subdivisions	0	0	0	0	0
Foreign government bonds	0	0	0	0	0
U.S. corporate public securities	0	0	0	0	0
U.S. corporate private securities	0	0	0	0	0
Foreign corporate public securities	0	0	0	0	0
Foreign corporate private securities	0	0	0	0	0
Asset-backed securities	0	0	0	0	0
Commercial mortgage-backed securities	0	0	0	0	0
Residential mortgage-backed securities	0	593	0	0	593
Equity securities	0	0	0	0	0
Total repurchase agreements	\$1,146	\$5,684	\$ 0	\$ 0	\$6,830
	December 31, 2015				
	Remaining Contractual Maturities of the Agreements				
	Overnight & Continuous	Up to 30 Days	30 to 90 Days	Greater than 90 Days	Total
	(in millions)				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$1,991	\$4,513	\$253	\$ 0	\$6,757
Obligations of U.S. states and their political subdivisions	0	0	0	0	0
Foreign government bonds	0	0	0	0	0
U.S. corporate public securities	11	0	0	0	11
U.S. corporate private securities	0	0	0	0	0
Foreign corporate public securities	0	0	0	0	0
Foreign corporate private securities	0	0	0	0	0
Asset-backed securities	0	0	0	0	0
Commercial mortgage-backed securities	0	0	0	0	0
Residential mortgage-backed securities	169	945	0	0	1,114

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Equity securities	0	0	0	0	0
Total repurchase agreements	\$2,171	\$5,458	\$253	\$ 0	\$7,882

28

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth the composition of securities lending transactions as of the dates indicated.

	September 30, 2016				Total
	Remaining Contractual Maturities of the Agreements				
	Overnight & Continuous	Up to 30 Days	30 to 90 Days	Greater than 90 Days	
	(in millions)				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$106	\$0	\$0	\$0	\$106
Obligations of U.S. states and their political subdivisions	21	0	0	0	21
Foreign government bonds	227	0	0	0	227
U.S. corporate public securities	3,001	88	0	0	3,089
U.S. corporate private securities	0	0	0	0	0
Foreign corporate public securities	849	61	0	0	910
Foreign corporate private securities	0	0	0	0	0
Asset-backed securities	0	0	0	0	0
Commercial mortgage-backed securities	0	0	0	0	0
Residential mortgage-backed securities	0	81	0	0	81
Equity securities	601	2	0	0	603
Total securities lending transactions	\$4,805	\$232	\$0	\$0	\$5,037

	December 31, 2015				Total
	Remaining Contractual Maturities of the Agreements				
	Overnight & Continuous	Up to 30 Days	30 to 90 Days	Greater than 90 Days	
	(in millions)				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$94	\$0	\$0	\$0	\$94
Obligations of U.S. states and their political subdivisions	4	0	0	0	4
Foreign government bonds	0	0	0	0	0
U.S. corporate public securities	1,401	86	0	0	1,487
U.S. corporate private securities	0	0	0	0	0
Foreign corporate public securities	579	50	0	0	629
Foreign corporate private securities	0	0	0	0	0
Asset-backed securities	241	0	0	0	241
Commercial mortgage-backed securities	8	0	0	0	8
Residential mortgage-backed securities	0	97	0	0	97
Equity securities	936	0	0	0	936
Total securities lending transactions	\$3,263	\$233	\$0	\$0	\$3,496

Reinsurance Trust

During the second quarter of 2016, a trust was established for the benefit of certain policyholders related to a reinsurance agreement between two wholly-owned subsidiaries. Total assets related to this new trust arrangement of \$1.2 billion were on deposit with trustees as of September 30, 2016. For additional information on other securities pledged, restricted assets and special deposits, see Note 4 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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”). A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control activities of the entity, the obligation to absorb the entity’s expected losses and the right to receive the entity’s expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE.

The Company is the primary beneficiary if the Company has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. If the Company determines that it is the VIE’s primary beneficiary, it consolidates the VIE.

Consolidated Variable Interest Entities

The Company is the investment manager of certain asset-backed investment vehicles commonly referred to as collateralized loan obligations (“CLOs”) and certain other vehicles for which the Company earns fee income for investment management services, including certain investment structures in which the Company’s asset management business invests with other co-investors in investment funds referred to as feeder funds. The Company may sell or syndicate investments through these vehicles, principally as part of the strategic investing activity of the Company’s asset management businesses. Additionally, the Company may invest in securities issued by these vehicles. CLOs raise capital by issuing debt securities, and use the proceeds to purchase investments, typically interest-bearing financial instruments. The Company has analyzed these relationships and determined that for certain CLOs and other investment structures it is the primary beneficiary and consolidates these entities. This analysis includes a review of (1) the Company’s rights and responsibilities as investment manager and (2) variable interests (if any) held by the Company. The assets of these VIEs are restricted and must be used first to settle liabilities of the VIE. The Company is not required to provide, and has not provided, material financial or other support to any of these VIEs. Effective January 1, 2016, the Company adopted new FASB guidance (ASU 2015-02, Consolidation (Topic 810): Amendments to Consolidation Analysis) that resulted in the deconsolidation of certain of its previously consolidated CLOs. See Note 2 for additional information.

Additionally, the Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities, but for which it is not the investment manager. These include structured investments issued by a VIE that manages yen-denominated investments coupled with cross-currency coupon swap agreements thereby creating synthetic dual currency investments. The Company’s involvement in the structuring of these investments combined with its economic interest indicates that the Company is the primary beneficiary. The Company has not provided material financial support or other support that was not contractually required to these VIEs.

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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Consolidated VIEs for Which the Company is the Investment Manager			
	September 30, 2016(1)	December 31, 2015	September 30, 2016	December 31, 2015
	(in millions)			
Fixed maturities, available-for-sale	\$75	\$ 0	\$ 308	\$ 179
Fixed maturities, held-to-maturity	93	0	902	760
Trading account assets supporting insurance liabilities	0	0	10	10
Other trading account assets	3,325	9,536	0	0
Commercial mortgage and other loans	542	0	0	300
Other long-term investments	973	0	96	155
Cash and cash equivalents	537	337	0	1
Accrued investment income	18	56	4	3
Other assets	498	324	0	3
Total assets of consolidated VIEs	\$6,061	\$ 10,253	\$ 1,320	\$ 1,411
Notes issued by consolidated VIEs	\$2,722	\$ 8,597	\$ 0	\$ 0
Other liabilities	481	674	13	3
Total liabilities of consolidated VIEs	\$3,203	\$ 9,271	\$ 13	\$ 3

As a result of the adoption of the new accounting guidance ASU 2015-02 effective January 1, 2016, total assets of (1) consolidated VIEs reflects \$1,486 million related to VIEs whose beneficial interests are wholly-owned by consolidated subsidiaries.

Recourse is limited to the assets of the respective VIE and does not extend to the general credit of Prudential Financial. As of September 30, 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. These VIEs consist primarily of CLOs and investment funds for which the Company has determined that it is not the primary beneficiary as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. 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 \$408 million and \$218 million at September 30, 2016 and December 31, 2015, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Other trading account assets, at fair value" and "Other long-term investments." The fair value of assets held within these unconsolidated VIEs was \$13,109 million and \$5,262 million as of September 30, 2016 and December 31, 2015, respectively. 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 has determined that it is not required to consolidate these entities because either: (1) it does not control them or (2) it does not have the obligation to absorb losses of the entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. The Company classifies these investments as “Other long-term investments” and its maximum exposure to loss associated with these entities was \$8,082 million and \$7,532 million as of September 30, 2016 and December 31, 2015, 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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

6. CLOSED BLOCK

On 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.

The policies included in the Closed Block are specified individual life insurance policies and individual annuity contracts that were in force on the date of demutualization and for which Prudential Insurance is currently paying or expects to pay experience-based policy dividends. Assets have been allocated to the Closed Block in an amount that has been determined to produce cash flows which, together with revenues from policies included in the Closed Block, are expected to be sufficient to support obligations and liabilities relating to these policies, including provision for payment of benefits, certain expenses and taxes and to provide for continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continues. To the extent that, over time, cash flows from the assets allocated to the Closed Block and claims and other experience related to the Closed Block are, in the aggregate, more or less favorable than what was assumed when the Closed Block was established, total dividends paid to Closed Block policyholders may be greater than or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to Closed Block policyholders and will not be available to stockholders. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from Prudential Insurance's assets outside of the Closed Block. The Closed Block will continue in effect as long as any policy in the Closed Block remains in force unless, with the consent of the New Jersey insurance regulator, it is terminated earlier.

The excess of Closed Block liabilities over Closed Block assets at the date of the demutualization (adjusted to eliminate the impact of related amounts in AOCI) represented the estimated maximum future earnings at that date from the Closed Block expected to result from operations attributed to the Closed Block after income taxes. In establishing the Closed Block, the Company developed an actuarial calculation of the timing of such maximum future earnings. If actual cumulative earnings of the Closed Block from inception through the end of any given period are greater than the expected cumulative earnings, only the expected earnings will be recognized in income. Any excess of actual cumulative earnings over expected cumulative earnings will represent undistributed accumulated earnings attributable to policyholders, which are recorded as a policyholder dividend obligation. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. If the actual cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income. However, the Company may reduce policyholder dividend scales, which would be intended to increase future actual earnings until the actual cumulative earnings equaled the expected cumulative earnings.

As of September 30, 2016 and December 31, 2015, the Company recognized a policyholder dividend obligation of \$1,572 million and \$1,694 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over the 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 \$4,795 million and \$2,815 million at September 30, 2016 and December 31, 2015, respectively, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

	September 30, 2016	December 31, 2015
	(in millions)	
Closed Block liabilities		
Future policy benefits	\$49,282	\$ 49,538
Policyholders' dividends payable	986	945
Policyholders' dividend obligation	6,367	4,509
Policyholders' account balances	5,213	5,250
Other Closed Block liabilities	3,861	4,171
Total Closed Block liabilities	65,709	64,413
Closed Block assets		
Fixed maturities, available-for-sale, at fair value	40,092	37,584
Other trading account assets, at fair value	296	288
Equity securities, available-for-sale, at fair value	2,458	2,726
Commercial mortgage and other loans	9,650	9,770
Policy loans	4,696	4,790
Other long-term investments	3,036	2,921
Short-term investments	680	1,467
Total investments	60,908	59,546
Cash and cash equivalents	990	1,036
Accrued investment income	520	506
Other Closed Block assets	456	458
Total Closed Block assets	62,874	61,546
Excess of reported Closed Block liabilities over Closed Block assets	2,835	2,867
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	4,777	2,800
Allocated to policyholder dividend obligation	(4,795)	(2,815)
Future earnings to be recognized from Closed Block assets and Closed Block liabilities	\$2,817	\$ 2,852

Information regarding the policyholder dividend obligation is as follows:

	Nine Months Ended September 30, 2016 (in millions)
Balance, January 1	\$ 4,509
Impact from earnings allocable to policyholder dividend obligation	(124)
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	1,982
Balance, September 30	\$ 6,367

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Closed Block revenues and benefits and expenses for the three and nine months ended September 30, 2016 and 2015, were as follows:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(in millions)			
Revenues				
Premiums	\$599	\$611	\$1,913	\$1,946
Net investment income	707	674	1,968	2,025
Realized investment gains (losses), net	152	94	259	633
Other income (loss)	27	(8)	29	13
Total Closed Block revenues	1,485	1,371	4,169	4,617
Benefits and Expenses				
Policyholders' benefits	758	760	2,423	2,476
Interest credited to policyholders' account balances	34	34	101	101
Dividends to policyholders	550	350	1,372	1,537
General and administrative expenses	100	106	303	321
Total Closed Block benefits and expenses	1,442	1,250	4,199	4,435
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	43	121	(30)	182
Income tax expense (benefit)	30	110	(65)	149
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	13	11	35	33
Income (loss) from discontinued operations, net of taxes	0	0	0	0
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	\$13	\$11	\$35	\$33

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, 2015	660.1	213.0	447.1
Common Stock issued	0.0	0.0	0.0
Common Stock acquired	0.0	18.5	(18.5)
Stock-based compensation programs(1)	0.0	(3.1)	3.1
Balance, September 30, 2016	660.1	228.4	431.7

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

In December 2015, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to \$1.5 billion of its outstanding Common Stock during the period from January 1, 2016 through December 31, 2016. Effective January 1, 2016, this authorization superseded the Company's previous \$1.0 billion share repurchase authorization that covered the period from July 1, 2015 through June 30, 2016. In August 2016, the Board of Directors authorized a \$500 million increase to the authorization for calendar year 2016. As a result, the Company's aggregate share repurchase authorization for the full year 2016 is \$2.0 billion. As of September 30, 2016, 18.5 million shares of the Company's Common Stock were repurchased under this authorization at a total cost of \$1,375 million.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The timing and amount of share repurchases are determined by management based upon market conditions and other considerations, and repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) under the Securities Exchange Act of 1934. 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

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, 2016 and 2015, are as follows:

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

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustments	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit	Total Accumulated Other Comprehensive
	(in millions)			

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

	(in millions)	(Cost)	Income (Loss)
Balance, December 31, 2014	\$(975) \$ 19,251	\$ (2,226)	\$ 16,050
Change in OCI before reclassifications	(203) (2,386)	8	(2,581)
Amounts reclassified from AOCI	5 (1,657)	145	(1,507)
Income tax benefit (expense)	86 1,469	(54)	1,501
Balance, September 30, 2015	\$(1,087) \$ 16,677	\$ (2,127)	\$ 13,463

(1) Includes cash flow hedges of \$1,093 million and \$1,165 million as of September 30, 2016 and December 31, 2015, respectively, and \$1,017 million and \$206 million as of September 30, 2015 and December 31, 2014, respectively.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016		Affected line item in Consolidated Statement of Operations
	2015	2016	2015	2015	
Amounts reclassified from AOCI(1)(2):					
Foreign currency translation adjustment:					
Foreign currency translation adjustments	\$(3)	\$(4)	\$(11)	\$(5)	Realized investment gains (losses), net
Total foreign currency translation adjustment	(3)	(4)	(11)	(5)	
Net unrealized investment gains (losses):					
Cash flow hedges—Interest Rate	(1)	(2)	(4)	(5)	(3)
Cash flow hedges—Currency/Interest rate	83	85	265	147	(3)
Net unrealized investment gains (losses) on available-for-sale securities	489	327	948	1,515	
Total net unrealized investment gains (losses)	571	410	1,209	1,657	(4)
Amortization of defined benefit pension items:					
Prior service cost	2	3	6	10	(5)
Actuarial gain (loss)	(56)	(52)	(167)	(155)	(5)
Total amortization of defined benefit pension items	(54)	(49)	(161)	(145)	
Total reclassifications for the period	\$514	\$357	\$1,037	\$1,507	

(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:

Table of Contents

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 and VOBA	Future Policy Benefits and Policyholders' Account Balances	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2015	\$234	\$ 6	\$ 14	\$ (31)	\$ (77)	\$ 146
Net investment gains (losses) on investments arising during the period	107				(36)	71
Reclassification adjustment for (gains) losses included in net income	1				0	1
Reclassification adjustment for OTTI losses excluded from net income(1)	(11)				4	(7)
Impact of net unrealized investment (gains) losses on DAC, DSI and VOBA		(9)			3	(6)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances			(26)		7	(19)
Impact of net unrealized investment (gains) losses on policyholders' dividends				(9)	3	(6)
Balance, September 30, 2016	\$331	\$ (3)	\$ (12)	\$ (40)	\$ (96)	\$ 180

(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	DAC, DSI and VOBA	Future Policy Benefits and Policyholders' Account Balances	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2015	\$28,240	\$ (760)	\$ (1,082)	\$ (2,802)	\$ (7,969)	\$ 15,627

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Net investment gains (losses) on investments arising during the period	21,764			(7,332)	14,432
Reclassification adjustment for (gains) losses included in net income	(1,210)			408	(802)
Reclassification adjustment for OTTI losses excluded from net income(2)	11			(4)	7
Impact of net unrealized investment (gains) losses on DAC, DSI and VOBA		(1,343)		434	(909)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances		(650)		185	(465)
Impact of net unrealized investment (gains) losses on policyholders' dividends			(1,983)	693	(1,290)
Balance, September 30, 2016	\$48,805	\$(2,103)	\$(1,732)	\$(4,785)	\$(13,585) \$ 26,600

(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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

8. EARNINGS PER SHARE

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

	Three Months Ended September 30, 2016		2015		Per Share Amount
	Income	Weighted Average Shares	Income	Weighted Average Shares	
(in millions, except per share amounts)					
Basic earnings per share					
Income (loss) from continuing operations	\$1,832		\$1,467		
Less: Income (loss) attributable to noncontrolling interests	5		2		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	21		14		
Income (loss) from continuing operations attributable to Prudential Financial available to holders of Common Stock	\$1,806	435.9	\$1,451	451.0	\$ 3.22
Effect of dilutive securities and compensation programs					
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$21		\$14		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	21		15		
Stock options		1.9		2.3	
Deferred and long-term compensation programs		0.9		0.9	
Exchangeable Surplus Notes	4	5.6	4	5.5	
Diluted earnings per share					
Income (loss) from continuing operations attributable to Prudential Financial available to holders of Common Stock	\$1,810	444.3	\$1,454	459.7	\$ 3.16

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2016		2015			
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
(in millions, except per share amounts)						
Basic earnings per share						
Income (loss) from continuing operations	\$4,126			\$4,972		
Less: Income (loss) attributable to noncontrolling interests	42			65		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	47			48		
Income (loss) from continuing operations attributable to Prudential Financial available to holders of Common Stock	\$4,037	440.7	\$ 9.16	\$4,859	452.6	\$ 10.74
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$47			\$48		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	46			48		
Stock options		1.7			2.4	
Deferred and long-term compensation programs		0.9			0.9	
Exchangeable Surplus Notes	13	5.6		13	5.5	
Diluted earnings per share						
Income (loss) from continuing operations attributable to Prudential Financial available to holders of Common Stock	\$4,051	448.9	\$ 9.02	\$4,872	461.4	\$ 10.56

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 income from continuing operations 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 loss from continuing operations 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, 2016 and 2015, as applicable, were based on 5.0 million and 4.4 million of such awards, respectively, and for the nine months ended September 30, 2016 and 2015, as applicable, were based on 5.1 million and 4.5 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 loss from continuing operations available to holders of Common Stock. Shares related to deferred and long-term compensation programs are considered antidilutive in the event of loss from continuing operations 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:

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30,			
	2016	2015		
	Shares	Exercise Price	Shares	Exercise Price
	Per Share	Per Share	Per Share	Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	3.3	\$ 85.22	2.5	\$ 88.00
Antidilutive stock options due to loss from continuing operations available to holders of Common Stock	0.0		0.0	
Antidilutive shares due to loss from continuing operations available to holders of Common Stock	0.0		0.0	
Total antidilutive stock options and shares	3.3		2.5	

	Nine Months Ended September 30,			
	2016	2015		
	Shares	Exercise Price	Shares	Exercise Price
	Per Share	Per Share	Per Share	Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	3.6	\$ 83.95	2.4	\$ 87.95
Antidilutive stock options due to loss from continuing operations available to holders of Common Stock	0.0		0.0	
Antidilutive shares due to loss from continuing operations available to holders of Common Stock	0.0		0.0	
Total antidilutive stock options and shares	3.6		2.4	

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.

Table of Contents

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	December
	30, 2016	31, 2015
	(\$ in millions)	
Commercial paper:		
Prudential Financial	\$45	\$ 80
Prudential Funding, LLC	430	384
Subtotal commercial paper	475	464
Current portion of long-term debt	432	752
Total short-term debt(1)	\$907	\$ 1,216
Supplemental short-term debt information:		
Portion of commercial paper borrowings due overnight	\$178	\$331
Daily average commercial paper outstanding	\$1,015	\$ 1,127
Weighted average maturity of outstanding commercial paper, in days	20	10
Weighted average interest rate on outstanding short-term debt(2)	0.40	% 0.16 %

(1) Includes Prudential Financial debt of \$154 million and \$831 million at September 30, 2016 and December 31, 2015, respectively.

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

Commercial Paper

Prudential Financial has a commercial paper program with an authorized capacity of \$3.0 billion. Prudential Financial's commercial paper borrowings have generally been used to fund the working capital needs of Prudential Financial's subsidiaries and provide short-term liquidity at Prudential Financial.

Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of Prudential Insurance, has a commercial paper program with an authorized capacity of \$7.0 billion. Prudential Funding commercial paper borrowings generally have served as an additional source of financing to meet the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the New Jersey Department of Banking and Insurance ("NJDOBI"). Prudential Funding maintains a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding's tangible net worth at a positive level. Additionally, Prudential Financial has issued a subordinated guarantee covering Prudential Funding's \$7.0 billion commercial paper program.

Federal Home Loan Bank of New York

Prudential Insurance is a member of the Federal Home Loan Bank of New York ("FHLBNY"). Membership allows Prudential Insurance access to the FHLBNY's financial services, including the ability to obtain collateralized advances and to issue collateralized funding agreements. Under applicable law, the funding agreements issued to the FHLBNY have priority claim status above debt holders of Prudential Insurance. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be

maintained at certain specified levels relative to outstanding borrowings. FHLBNY membership requires Prudential Insurance to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if any of Prudential Insurance's financial strength ratings decline below A/A2/A Stable by S&P/Moody's/Fitch, respectively, and the FHLBNY does not receive written assurances from the NJDOBI regarding Prudential Insurance's solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently, there are no restrictions on the term of borrowings from the FHLBNY.

NJDOBI permits Prudential Insurance to pledge collateral to the FHLBNY in an amount of up to 5% of its prior year-end statutory net admitted assets, excluding separate account assets. Based on Prudential Insurance's statutory net admitted assets as of December 31, 2015, the 5% limitation equates to a maximum amount of pledged assets of \$5.8 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels) of approximately \$5.0 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY's discretion and to the availability of qualifying assets at Prudential Insurance.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of September 30, 2016, Prudential Insurance had pledged assets with a fair value of \$1.1 billion supporting outstanding funding agreements totaling \$1.0 billion, which are included in “Policyholders’ account balances.” The fair value of qualifying assets that were available to Prudential Insurance, but not pledged, amounted to \$6.7 billion as of September 30, 2016. Prudential Insurance had no other advances outstanding under the FHLB facility as of September 30, 2016.

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company (“PRIAC”) is a member of the Federal Home Loan Bank of Boston (“FHLBB”). Membership allows PRIAC access to collateralized advances which will be classified in “Short-term debt” or “Long-term debt,” depending on the maturity date of the obligation. PRIAC’s membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings, depending on the maturity date of the obligation. As of September 30, 2016, PRIAC had no advances outstanding under the FHLBB facility.

Under Connecticut state insurance law, without the prior consent of the Connecticut Insurance Department, the amount of assets insurers may pledge to secure debt obligations is limited to the lesser of 5% of prior year statutory admitted assets or 25% of prior year statutory surplus, resulting in a maximum borrowing capacity for PRIAC under the FHLBB facility of approximately \$244 million as of September 30, 2016.

Credit Facilities

As of September 30, 2016, the Company maintained syndicated, unsecured committed credit facilities as described below.

Borrowers	Original Term	Expiration Date	Capacity	Amount Outstanding
			(in millions)	
Prudential Financial and Prudential Funding	5 years	Apr 2020	\$4,000	\$ 0
Prudential Holdings of Japan, Inc.	3 years	Sep 2019	¥100,000	¥ 0

The \$4.0 billion five-year facility contains customary representations and warranties, covenants and events of default and borrowings are not contingent on the borrowers’ credit ratings nor subject to material adverse change clauses. Borrowings under this facility are conditioned on the continued satisfaction of customary financial covenants, including Prudential Financial’s maintenance of consolidated net worth of at least \$18.985 billion, which is calculated as U.S. GAAP equity, excluding AOCI, equity of noncontrolling interests and equity attributable to the Closed Block. The Company expects that it may borrow under the \$4.0 billion five-year facility from time to time to fund its working capital needs. In addition, amounts under this credit facility may be drawn in the form of standby letters of credit that can be used to meet the Company’s operating needs.

Prudential Holdings of Japan, Inc. entered into a ¥100 billion three-year facility in September 2016. This facility also contains customary representations and warranties, covenants, and events of default and borrowings are not contingent on the borrowers’ credit ratings nor subject to material adverse change clauses. The ¥100 billion three-year facility also contains a two year term-out option.

Borrowings under each of these credit facilities may be used for general corporate purposes. As of September 30, 2016, the Company was in compliance with the covenants under each of these credit facilities.

Put Option Agreement for Senior Debt Issuance

In November 2013, Prudential Financial entered into a ten-year put option agreement with a Delaware trust upon the completion of the sale of \$1.5 billion of trust securities by that Delaware trust in a Rule 144A private placement. The trust invested the proceeds from the sale of the trust securities in a portfolio of principal and interest strips of U.S. Treasury securities. The put option agreement provides Prudential Financial the right to sell to the trust at any time up to \$1.5 billion of 4.419% senior notes due November 2023 and receive in exchange a corresponding amount of the principal and interest strips of the U.S. Treasury securities held by the trust. In return, the Company agreed to pay a semi-annual put premium to the trust at a rate of 1.777% per annum applied to the unexercised portion of the put option. The put option agreement with the trust provides Prudential Financial with a source of liquid assets.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The put option described above will be exercised automatically in full upon the Company's failure to make certain payments to the trust, such as paying the put option premium or reimbursing the trust for its expenses, if the Company's failure to pay is not cured within 30 days, and upon an event involving its bankruptcy. The Company is also required to exercise the put option if its consolidated stockholders' equity, calculated in accordance with GAAP but excluding AOCI, falls below \$7.0 billion, subject to adjustment in certain cases. The Company has a one-time right to unwind a prior voluntary exercise of the put option by repurchasing all of the senior notes then held by the trust in exchange for principal and interest strips of U.S. Treasury securities. Finally, any of the 4.419% senior notes that Prudential Financial issues may be redeemed prior to their maturity at par or, if greater, a make-whole price, following a voluntary exercise in full of the put option.

Long-term Debt

Surplus Notes

During the first and third quarters of 2016, the Company increased the principal amount of surplus notes outstanding under its captive financing facility initially established in December 2013 for the financing of non-economic reserves required under Guideline AXXX by \$140 million and \$175 million, respectively. As of September 30, 2016, an aggregate of \$2.4 billion of surplus notes were outstanding under this facility and no credit-linked note payments have been required.

During the second quarter of 2016, the Company increased the principal amount of surplus notes outstanding under its captive financing facility initially established in December 2014 for the financing of non-economic reserves required under Regulation XXX by \$77 million. As of September 30, 2016, an aggregate of \$1.1 billion of surplus notes were outstanding under this facility and no credit-linked note payments have been required.

Under each of the above transactions, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company's total consolidated borrowings on a net basis.

Senior Notes

Medium-Term Notes. Prudential Financial maintains a medium-term notes program under its shelf registration statement with an authorized issuance capacity of \$20.0 billion. As of September 30, 2016, the outstanding balance of the Company's medium-term notes was \$9.6 billion, a decrease of \$1.3 billion from December 31, 2015, due to maturities of \$750 million and the repurchase of \$500 million of medium-term notes through a tender offer. The repurchase included a prepayment premium and fees totaling \$36 million which were recorded to interest expense.

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, 2016, the outstanding balance of retail notes was \$461 million.

Mortgage Debt. As of September 30, 2016, the Company's subsidiaries had mortgage debt of \$662 million that has recourse only to real estate property held for investment by those subsidiaries. This represents an increase of \$98 million from December 31, 2015, primarily due to new borrowings.

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

The Company has funded and non-funded non-contributory defined benefit pension plans, 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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

	Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	\$64	\$61	\$ 5	\$ 5
Interest cost	125	118	22	21
Expected return on plan assets	(189)	(194)	(26)	(29)
Amortization of prior service cost	(2)	(2)	0	(1)
Amortization of actuarial (gain) loss, net	46	42	10	10
Settlements	1	1	0	0
Special termination benefits	0	0	0	0
Net periodic (benefit) cost	\$45	\$26	\$ 11	\$ 6

	Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	\$189	\$183	\$ 14	\$ 15
Interest cost	374	352	68	64
Expected return on plan assets	(566)	(581)	(79)	(86)
Amortization of prior service cost	(5)	(6)	(1)	(4)
Amortization of actuarial (gain) loss, net	136	126	31	29
Settlements	3	2	0	0
Special termination benefits	2	4	0	0
Net periodic (benefit) cost	\$133	\$80	\$ 33	\$ 18

During the nine months ended September 30, 2016, the Company made cash contributions of \$150 million to its pension plans and anticipates making an additional \$35 million of cash contributions during the remainder of 2016.

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. Our Corporate and Other operations include corporate items and

initiatives that are not allocated to business segments and businesses that have been or will be divested.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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) from continuing operations 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) from continuing operations before income taxes and equity in earnings of operating joint ventures” for the following items, which are described in greater detail below:

- 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. However, the Company 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.

In addition, as discussed in Note 1, during the second quarter, the Company recorded an out of period adjustment resulting in a decrease of \$148 million to “Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures,” which was reflected in the three month period ended June 30, 2016 and 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 Insurance segment.

Realized investment gains (losses), net, and related charges and adjustments

Realized investment gains (losses), net

Adjusted operating income excludes “Realized investment gains (losses), net,” except for certain items described below. Significant activity excluded from adjusted operating income includes impairments and credit-related gains (losses) from sales of securities, the timing of which depends largely on market credit cycles and can vary considerably across periods, and interest rate-related gains (losses) from sales of securities, which are largely subject to the Company’s discretion and influenced by market opportunities, as well as the Company’s tax and capital profile. Additionally, certain gains (losses) pertaining to derivative contracts that do not qualify for hedge accounting treatment are also excluded from adjusted operating income. Trends in the underlying profitability of the Company’s businesses can be more clearly identified without the fluctuating effects of these transactions.

The following table sets forth the significant components of “Realized investment gains (losses), net” that are included in adjusted operating income and, as a result, are reflected as adjustments to “Realized investment gains (losses), net” for purposes of calculating adjusted operating income:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net gains (losses) from(1):				
Terminated hedges of foreign currency earnings	\$(10)	\$74	\$33	\$234
Current period yield adjustments	\$107	\$121	\$347	\$369
Principal source of earnings	\$17	\$48	\$44	\$96

(in millions)

In addition to the items in the table above, “Realized investment gains (losses), net, and related charges and (1) adjustments” also includes an adjustment to reflect “Realized investment gains (losses), net” related to divested businesses as results of “Divested businesses,” discussed below.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Terminated Hedges of Foreign Currency Earnings. The amounts shown in the table above primarily reflect the impact of an intercompany arrangement between Corporate and Other operations and the International Insurance segment, pursuant to which the non-U.S. dollar-denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segment's U.S. dollar equivalent earnings. Pursuant to this program, the Company's Corporate and Other operations may execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar-denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP, so the resulting profits or losses are recorded in "Realized investment gains (losses), net." When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income.

Current Period Yield Adjustments. The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For derivative contracts that do not qualify for hedge accounting treatment, the periodic swap settlements, as well as certain other derivative related yield adjustments are recorded in "Realized investment gains (losses), net," and are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Included in the amounts shown in the table above are gains on certain derivative contracts that were terminated or offset before their final maturity of \$12 million and \$14 million for the three months ended September 30, 2016 and 2015, respectively, and \$36 million and \$40 million for the nine months ended September 30, 2016 and 2015, respectively. Additionally, as of September 30, 2016, there was a \$169 million deferred net gain related to certain derivative contracts that were terminated or offset before their final maturity, primarily in the International Insurance segment. Also included in the amounts shown in the table above are fees related to synthetic Guaranteed Investment Contracts ("GICs") of \$40 million for both the three months ended September 30, 2016 and 2015, and \$118 million and \$119 million for the nine months ended September 30, 2016 and 2015, respectively. Synthetic GICs are accounted for as derivatives under U.S. GAAP and, therefore, these fees are recorded in "Realized investment gains (losses), net." See Note 14 for additional information on synthetic GICs.

Principal Source of Earnings. The Company conducts certain activities for which realized investment gains (losses) are a principal source of earnings for its businesses and therefore included in adjusted operating income, particularly within the Company's Asset Management segment. For example, Asset Management's strategic investing business makes investments for sale or syndication to other investors or for placement or co-investment in the Company's managed funds and structured products. The realized investment gains (losses) associated with the sale of these strategic investments, as well as the majority of derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the realized investment gains (losses) associated with loans originated by the Company's commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and included in adjusted operating income.

Other items reflected as adjustments to Realized investment gains (losses), net

The following table sets forth certain other items excluded from adjusted operating income and reflected as an adjustment to "Realized investment gains (losses), net" for purposes of calculating adjusted operating income:

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
	(in millions)			
Net gains (losses) from:				
Other trading account assets	\$16	\$(86)	\$(40)	\$(118)
Foreign currency exchange movements	\$(314)	\$(127)	\$(852)	\$31
Other activities	\$(8)	\$4	\$(12)	\$5

46

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Other Trading Account Assets. The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in “Other trading account assets, at fair value” on the Company’s Unaudited Interim Consolidated Statements of Financial Position. Realized and unrealized gains (losses) for these investments are recorded in “Other income.” Consistent with the exclusion of realized investment gains (losses) with respect to other investments managed on a consistent basis, the net gains or losses on these investments are excluded from adjusted operating income.

Foreign Currency Exchange Movements. The Company has certain assets and liabilities for which, under U.S. GAAP, the changes in value, including those associated with changes in foreign currency exchange rates during the period, are recorded in “Other income.” To the extent the foreign currency exposure on these assets and liabilities is economically hedged or considered part of the Company’s capital funding strategies for its international subsidiaries, the change in value included in “Other income” is excluded from adjusted operating income.

Other Activities. The Company excludes certain other items from adjusted operating income that are consistent with similar adjustments described above.

Related charges

Charges that relate to realized investment gains (losses) are also excluded from adjusted operating income, and include the following:

• The portion of the amortization of DAC, VOBA, unearned revenue reserves and DSI for certain products that is related to net realized investment gains (losses).

Policyholder dividends and interest credited to policyholders’ account balances that relate to certain life policies that pass back certain realized investment gains (losses) to the policyholder, and reserves for future policy benefits for certain policies that are affected by net realized investment gains (losses).

Market value adjustments paid or received upon a contractholder’s surrender of certain of the Company’s annuity products as these amounts mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets.

Investment gains (losses) on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes

Certain products included in the Retirement and International Insurance segments are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are classified as trading and are carried at fair value, with realized and unrealized gains (losses) reported in “Other income.” To a lesser extent, these experience-rated products are also supported by derivatives and commercial mortgage and other loans. The derivatives are carried at fair value, with realized and unrealized gains (losses) reported in “Realized investment gains (losses), net.” The commercial mortgage and other loans are carried at unpaid principal, net of unamortized discounts and an allowance for losses, with gains (losses) on sales and changes in the valuation allowance for commercial mortgage and other loans reported in “Realized investment gains (losses), net.”

Adjusted operating income excludes net investment gains (losses) on trading account assets supporting insurance liabilities, which is consistent with the exclusion of realized investment gains (losses) with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains (losses) on investments, adjusted operating income

also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in "Interest credited to policyholders' account balances." These adjustments are in addition to the exclusion from adjusted operating income of net investment gains (losses) on the related derivatives and commercial mortgage and other loans through "Realized investment gains (losses), net, and related charges and adjustments," as discussed above. The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread the Company earns on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that are expected to ultimately accrue to the contractholders.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Divested businesses

The contribution to income (loss) of divested businesses that have been or will be sold or exited, including businesses that have been placed in wind down, but that did not qualify for “discontinued operations” accounting treatment under U.S. GAAP, are excluded from adjusted operating income as the results of divested businesses are not considered relevant to understanding the Company’s ongoing operating results.

Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests

Equity in earnings of operating joint ventures, on a pre-tax basis, are included in adjusted operating income as these results are a principal source of earnings. These earnings are reflected on a U.S. GAAP basis on an after-tax basis as a separate line on the Company’s Unaudited Interim Consolidated Statements of Operations.

Earnings attributable to noncontrolling interests are excluded from adjusted operating income. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors, and are reflected on a U.S. GAAP basis as a separate line on the Company’s Unaudited Interim Consolidated Statements of Operations.

Reconciliation of adjusted operating income and net income (loss)

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015	2015	2015	2015
	(in millions)			
Adjusted Operating Income before income taxes by Segment:				
Individual Annuities	\$588	\$310	\$1,343	\$1,387
Retirement	239	242	694	763
Asset Management	191	180	563	581
Total U.S. Retirement Solutions and Investment Management division	1,018	732	2,600	2,731
Individual Life	111	183	(59)	536
Group Insurance	62	44	177	149
Total U.S. Individual Life and Group Insurance division	173	227	118	685
International Insurance	780	812	2,362	2,488
Total International Insurance division	780	812	2,362	2,488
Corporate and Other operations	(413)	(308)	(1,140)	(855)
Total Corporate and Other	(413)	(308)	(1,140)	(855)
Total adjusted operating income before income taxes	1,558	1,463	3,940	5,049
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	223	1,117	2,443	2,719
Charges related to realized investment gains (losses), net	426	(679)	(1,096)	(944)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	37	(228)	361	(365)
Change in experience-rated contractholder liabilities due to asset value changes	1	258	(262)	295

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

Divested businesses:

Closed Block division	31	108	(74	) 138
Other divested businesses	56	8	76	(26)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(17	) 2	0	60
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	\$2,315	\$2,049	\$5,388	\$6,926

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

Reconciliation of select financial information

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

	Revenues				Total Assets	
	Three Months Ended		Nine Months Ended		September 30,	December 31,
	September 30, 2016	2015	September 30, 2016	2015	2016	2015(1)
	(in millions)					
Individual Annuities	\$1,221	\$1,167	\$3,473	\$3,554	\$177,946	\$169,447
Retirement	5,134	1,937	9,268	7,595	177,765	171,183
Asset Management	750	704	2,188	2,213	51,103	54,491
Total U.S. Retirement Solutions and Investment Management division	7,105	3,808	14,929	13,362	406,814	395,121
Individual Life	1,410	1,375	3,931	3,886	79,296	71,856
Group Insurance	1,333	1,294	4,017	3,862	41,906	39,344
Total U.S. Individual Life and Group Insurance division	2,743	2,669	7,948	7,748	121,202	111,200
International Insurance	5,384	4,750	15,771	14,693	215,930	175,153
Total International Insurance division	5,384	4,750	15,771	14,693	215,930	175,153
Corporate and Other operations	(182)	(149)	(494)	(418)	12,454	13,654
Total Corporate and Other	(182)	(149)	(494)	(418)	12,454	13,654
Total	15,050	11,078	38,154	35,385	756,400	695,128
Reconciling items:						
Realized investment gains (losses), net, and related adjustments	223	1,117	2,443	2,719		
Charges related to realized investment gains (losses), net	(19)	72	57	(7)		
Investment gains (losses) on trading account assets supporting insurance liabilities, net	37	(228)	361	(365)		
Divested businesses:						
Closed Block division	1,481	1,368	4,156	4,612	63,465	62,127
Other divested businesses	209	190	602	523		
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(20)	2	(44)	(4)		
Total per Unaudited Interim Consolidated Financial Statements	\$16,961	\$13,599	\$45,729	\$42,863	\$819,865	\$757,255

(1) Prior period amounts are presented on a basis consistent with the current period presentation, reflecting the adoption of ASU 2015-03.

The Asset Management segment revenues include intersegment revenues primarily consisting of asset-based management and administration fees as follows:

	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Asset Management segment intersegment revenues	\$173	\$159	\$504	\$506

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other.

12. INCOME TAXES

The Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards ("tax attributes"), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes.

The Company does not anticipate any significant changes within the next 12 months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

Listed below are the tax years that remain subject to examination by major tax jurisdiction, at September 30, 2016:

Major Tax Jurisdiction Open Tax Years

United States 2009 – 2015

Japan Fiscal years ended March 31, 2012 – 2016

Korea Fiscal years ended March 31, 2012 and 2013, the periods ended December 31, 2014 and 2015

The dividends received deduction ("DRD") reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between the Company's effective tax rate and the federal statutory tax rate of 35%. The DRD for the current period was estimated using information from 2015 and current year results, and was adjusted to take into account the current year's equity market performance and expected business results. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from investments, changes in the account balances of variable life and annuity contracts, and the Company's taxable income before the DRD.

There is a possibility that the IRS and the U.S. Treasury will address, through guidance, their issues related to the calculation of the DRD. For the last several years, the revenue proposals included in the Obama Administration's budgets included proposed changes to the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through guidance or legislation, could increase actual tax expense and reduce the Company's consolidated net income.

For tax years 2009 through 2016, the Company is participating in the IRS's Compliance Assurance Program ("CAP"). Under CAP, the IRS assigns an examination team to review completed transactions as they occur in order to reach agreement with the Company on how they should be reported in the relevant tax return. If disagreements arise, accelerated resolutions programs are available to try to resolve the disagreements in a timely manner before the tax return is filed.

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. The Company's Level 1 assets and liabilities primarily include certain cash equivalents and short-term investments, equity securities and derivative contracts that trade on an active exchange market.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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. The Company's Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-backed securities, etc.), certain equity securities (mutual funds, which do not trade in active markets because they are not publicly available), certain commercial mortgage loans, short-term investments and certain cash equivalents (primarily commercial paper), and certain over-the-counter ("OTC") derivatives.

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. The Company's Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured OTC derivative contracts, certain commercial mortgage loans, certain consolidated real estate funds for which the Company is the general partner and embedded derivatives resulting from certain products with guaranteed benefits.

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.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of September 30, 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	\$25,725	\$0	\$	\$25,725
Obligations of U.S. states and their political subdivisions	0	9,862	5		9,867
Foreign government bonds	0	108,270	130		108,400
U.S. corporate public securities	0	87,388	228		87,616
U.S. corporate private securities(7)	0	31,183	1,285		32,468
Foreign corporate public securities	0	30,507	142		30,649
Foreign corporate private securities	0	20,369	626		20,995
Asset-backed securities(8)	0	7,200	3,175		10,375
Commercial mortgage-backed securities	0	12,338	163		12,501
Residential mortgage-backed securities	0	4,477	171		4,648
Subtotal	0	337,319	5,925		343,244
Trading account assets(2):					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	378	0		378
Obligations of U.S. states and their political subdivisions	0	208	0		208
Foreign government bonds	0	789	40		829
Corporate securities	0	17,897	225		18,122
Asset-backed securities(8)	0	1,148	240		1,388
Commercial mortgage-backed securities	0	1,960	1		1,961
Residential mortgage-backed securities	0	1,324	2		1,326
Equity securities	1,513	230	552		2,295
All other(3)	304	21,585	2	(19,011)	2,880
Subtotal	1,817	45,519	1,062	(19,011)	29,387
Equity securities, available-for-sale	6,056	3,411	298		9,765
Commercial mortgage and other loans	0	572	0		572
Other long-term investments	6	100	14	(17)	103
Short-term investments	3,485	1,442	1		4,928
Cash equivalents	5,237	13,575	0		18,812
Other assets	0	4	64		68
Subtotal excluding separate account assets	16,601	401,942	7,364	(19,028)	406,879
Separate account assets(4)	38,262	225,680	1,973		265,915
Total assets	\$54,863	\$627,622	\$9,337	\$(19,028)	\$672,794
Future policy benefits(5)	\$0	\$0	\$13,024	\$	\$13,024
Other liabilities	95	8,340	19	(7,962)	492
Notes issued by consolidated VIEs	0	0	2,722		2,722
Total liabilities	\$95	\$8,340	\$15,765	\$(7,962)	\$16,238

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of December 31, 2015				Total
	Level 1	Level 2	Level 3	Netting(1)	
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$0	\$18,517	\$0	\$	\$18,517
Obligations of U.S. states and their political subdivisions	0	8,789	6		8,795
Foreign government bonds	0	83,590	123		83,713
U.S. corporate public securities	0	75,163	205		75,368
U.S. corporate private securities(7)	0	29,750	694		30,444
Foreign corporate public securities	0	28,510	44		28,554
Foreign corporate private securities	0	18,859	279		19,138
Asset-backed securities(8)	0	6,178	4,048		10,226
Commercial mortgage-backed securities	0	10,424	38		10,462
Residential mortgage-backed securities	0	4,923	183		5,106
Subtotal	0	284,703	5,620		290,323
Trading account assets(2):					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	288	0		288
Obligations of U.S. states and their political subdivisions	0	189	0		189
Foreign government bonds	0	697	34		731
Corporate securities	0	23,125	203		23,328
Asset-backed securities(8)	0	749	596		1,345
Commercial mortgage-backed securities	0	1,870	3		1,873
Residential mortgage-backed securities	0	1,509	4		1,513
Equity securities	1,542	221	589		2,352
All other(3)	630	14,173	5	(11,447)	3,361
Subtotal	2,172	42,821	1,434	(11,447)	34,980
Equity securities, available-for-sale	6,011	2,997	266		9,274
Commercial mortgage and other loans	0	274	0		274
Other long-term investments(6)	13	130	49	(10)	182
Short-term investments	6,776	711	0		7,487
Cash equivalents	4,834	9,374	0		14,208
Other assets	0	9	7		16
Subtotal excluding separate account assets	19,806	341,019	7,376	(11,457)	356,744
Separate account assets(4)(6)	43,076	214,838	1,995		259,909
Total assets	\$62,882	\$555,857	\$9,371	\$(11,457)	\$616,653
Future policy benefits(5)	\$0	\$0	\$8,434	\$	\$8,434
Other liabilities	1	5,306	2	(5,276)	33
Notes issued by consolidated VIEs	0	0	8,597		8,597
Total liabilities	\$1	\$5,306	\$17,033	\$(5,276)	\$17,064

“Netting” amounts represent cash collateral of \$11,066 million and \$6,181 million as of September 30, 2016 and (1)December 31, 2015, respectively, and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting arrangements.

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

(3)

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

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 (4) made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Consolidated Statements of Financial Position.

As of September 30, 2016, the net embedded derivative liability position of \$13.0 billion includes \$1.0 billion of embedded derivatives in an asset position and \$14.0 billion of embedded derivatives in a liability position. As of (5) December 31, 2015, the net embedded derivative liability position of \$8.4 billion includes \$0.7 billion of embedded derivatives in an asset position and \$9.1 billion of embedded derivatives in a liability position.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (6) Prior period amounts are presented on a basis consistent with the current period presentation, reflecting the adoption of ASU 2015-07.
- (7) Excludes notes with fair value of \$1,127 million and \$1,039 million as of September 30, 2016 and December 31, 2015, respectively, which have been offset with the associated payables under a netting agreement.
- (8) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below.

Fixed Maturity Securities—The fair values of the Company’s public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices for each security are generally sourced from multiple pricing vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. The pricing hierarchy is updated for new financial products and recent pricing experience with various vendors. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. Typical inputs used by these pricing services include but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flow, prepayment speeds and default rates. If the pricing information received from third-party pricing services is deemed not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service or classify the securities as Level 3. If the pricing service updates the price to be more consistent with the presented market observations, the security remains within Level 2.

Internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances where vendor pricing is not available, or where the Company ultimately concludes that pricing information received from the independent pricing services is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information with an internally-developed valuation. As of September 30, 2016 and December 31, 2015, overrides on a net basis were not material. Pricing service overrides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

The Company conducts several specific price monitoring activities. Daily analyses identify price changes over predetermined thresholds defined at the financial instrument level. Various pricing integrity reports are reviewed on a daily and monthly basis to determine if pricing is reflective of market activity or if it would warrant any adjustments. Other procedures performed include, but are not limited to, reviews of third-party pricing services methodologies, reviews of pricing trends and back testing.

The fair value of private fixed maturities, which are comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using discounted cash flow models. These models primarily use observable inputs that include Treasury or similar base rates plus estimated credit spreads to value each security. The credit spreads are obtained through a survey of private market intermediaries who are active in both primary and secondary transactions, and consider, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Since most private placements are valued using standard market observable inputs and inputs derived from, or corroborated by, market observable data including observed prices and spreads for similar publicly-traded or privately-traded issues, they have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may incorporate significant

unobservable inputs, which reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset. To the extent management determines that such unobservable inputs are significant to the price of a security, a Level 3 classification is made.

Trading Account Assets—Trading account assets consist primarily of fixed maturity securities, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under “Fixed Maturity Securities” and below under “Equity Securities” and “Derivative Instruments.”

Equity Securities—Equity securities consist principally of investments in common and preferred stock of publicly-traded companies, perpetual preferred stock, privately-traded securities, as well as mutual fund shares. The fair values of most publicly-traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using discounted cash flow, earnings multiple and other valuation models that require a substantial level of judgment around inputs and therefore are classified within Level 3. The fair values of mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy. The fair values of perpetual preferred stock are based on inputs obtained from independent pricing services that are primarily based on indicative broker quotes. As a result, the fair values of perpetual preferred stock are classified as Level 3.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Commercial Mortgage and Other Loans—The fair value of loans held and accounted for using the fair value option is determined utilizing pricing indicators from the whole loan market, where investors are committed to purchase these loans at a predetermined price, which is considered the principal exit market for these loans. The Company evaluates the valuation inputs used for these assets, including the existence of predetermined exit prices, the terms of the loans, prevailing interest rates and credit risk, and deems the primary pricing inputs are Level 2 inputs in the fair value hierarchy.

Other Long-Term Investments—Other long-term investments include limited partnerships which are consolidated because the Company is either deemed to exercise control or considered the primary beneficiary of a variable interest entity. These entities are primarily investment companies and follow specialized industry accounting whereby their assets are carried at fair value. The investments held by these entities include various feeder fund investments in underlying master funds (whose underlying holdings generally include public fixed maturities, equity securities and mutual funds), as well as wholly-owned real estate held within other investment funds.

As discussed in Note 2, the Company adopted ASU 2015-07, effective January 1, 2016, which resulted in the exclusion of certain Other long-term investments from the fair value hierarchy. The guidance was required to be applied retrospectively, and therefore, prior period amounts have been conformed to the current period presentation. At September 30, 2016 and December 31, 2015, the fair values of these investments, which include certain hedge funds, private equity funds and other funds were \$1,514 million and \$1,413 million, respectively, of which \$82 million and \$1,331 million had been previously classified in Level 2 and Level 3, respectively, at December 31, 2015.

Other Assets—Other assets reflected in Level 3 include reinsurance recoverables which are carried at fair value and relate to the reinsurance of the Company's living benefit guarantees on certain variable annuity contracts. The methods and assumptions used to estimate the fair value are consistent with those described in "Future Policy Benefits."

Derivative Instruments—Derivatives are recorded at fair value either as assets, within "Other trading account assets," or "Other long-term investments," or as liabilities, within "Other liabilities," except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected returns, non-performance risk ("NPR"), liquidity and other factors. For derivative positions included within Level 3 of the fair value hierarchy, liquidity valuation adjustments are made to reflect the cost of exiting significant risk positions, and consider the bid-ask spread, maturity, complexity and other specific attributes of the underlying derivative position.

The Company's exchange-traded futures and options include Treasury futures, Eurodollar futures, commodity futures, Eurodollar options and commodity options. Exchange-traded futures and options are valued using quoted prices in active markets and are classified within Level 1 in the fair value hierarchy.

The majority of the Company's derivative positions are traded in the OTC derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The Company's policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including interest rate and cross-currency swaps, currency forward contracts, commodity swaps, commodity forward contracts, single name credit default swaps, loan commitments held for sale and "to be announced" ("TBA") forward contracts on highly rated mortgage-backed securities issued by U.S. government sponsored entities are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black-Scholes option pricing models. These models' key inputs

include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yields, NPR, volatility and other factors.

The Company's cleared interest rate swaps and credit derivatives linked to an index are valued using models that utilize actively quoted or observable market inputs, including Overnight Indexed Swap discount rates, obtained from external market data providers, third-party pricing vendors and/or recent trading activity. These derivatives are classified as Level 2 in the fair value hierarchy.

The vast majority of the Company's derivative agreements are with highly rated major international financial institutions. To reflect the market's perception of its own and the counterparty's NPR, the Company incorporates additional spreads over London Inter-Bank Offered Rate ("LIBOR") into the discount rate used in determining the fair value of OTC derivative assets and liabilities that are not otherwise collateralized.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Derivatives classified as Level 3 include look-back equity options and other structured products. These derivatives are valued based upon models, such as Monte Carlo simulation models and other techniques that utilize significant unobservable inputs. Level 3 methodologies are validated through periodic comparison of the Company's fair values to external broker-dealer values.

Cash Equivalents and Short-Term Investments—Cash equivalents and short-term investments include money market instruments, commercial paper and other highly liquid debt instruments. Certain money market instruments are valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The remaining instruments in this category are generally fair valued based on market observable inputs and these investments have primarily been classified within Level 2.

Separate Account Assets—Separate account assets include fixed maturity securities, treasuries, equity securities and mutual funds for which values are determined consistent with similar instruments described above under “Fixed Maturity Securities,” and “Equity Securities.”

As discussed in Note 2, the Company adopted ASU 2015-07, effective January 1, 2016, which resulted in the exclusion of certain separate account investments from the fair value hierarchy. The guidance was required to be applied retrospectively, and therefore, prior period amounts have been conformed to the current period presentation. At September 30, 2016 and December 31, 2015, the fair values of Separate Account Assets excluded from the fair value hierarchy, which include investments in real estate and other invested assets, were \$25,635 million and \$25,661 million, respectively, which had been previously classified in Level 3 at December 31, 2015.

Notes issued by Consolidated VIEs—These notes are based on the fair values of corresponding bank loan collateral. Since the notes are valued based on reference collateral, they are classified as Level 3. See Note 5 and “Fair Value Option” below for additional information.

Other Liabilities—Other liabilities include certain derivative instruments, including embedded derivatives associated with certain “Policyholders’ account balances.” The fair values are primarily determined consistent with similar derivative instruments described above under “Derivative Instruments.”

Future Policy Benefits—The liability for future policy benefits is related to guarantees primarily associated with the living benefit features of certain variable annuity contracts offered by the Company's Individual Annuities segment, including guaranteed minimum accumulation benefit, guaranteed minimum withdrawal benefits and guaranteed minimum income and withdrawal benefits, accounted for as embedded derivatives. The fair values of these liabilities are calculated as the present value of future expected benefit payments to customers less the present value of future expected rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management's judgment.

The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company's market-perceived NPR, as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal

rates, and mortality rates. Since many of these assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level 3 in the fair value hierarchy.

Capital market inputs and actual policyholders' account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk neutral valuation, the initial swap curve drives the total return used to grow the policyholders' account values. The Company's discount rate assumption is based on the LIBOR swap curve adjusted for an additional spread relative to LIBOR to reflect NPR.

Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data. These assumptions are generally updated annually unless a material change that the Company feels is indicative of a long-term trend is observed in an interim period.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 as 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. During the three months ended September 30, 2016, \$15 million were transferred from Level 1 to Level 2 and \$2 million were transferred from Level 2 to Level 1. During the nine months ended September 30, 2016, \$81 million were transferred from Level 1 to Level 2 and \$33 million were transferred from Level 2 to Level 1. During the three months ended September 30, 2015, \$73 million were transferred from Level 1 to Level 2 and \$72 million were transferred from Level 2 to Level 1. During the nine months ended September 30, 2015, \$147 million were transferred from Level 1 to Level 2 and \$126 million were transferred from Level 2 to Level 1.

Level 3 Assets and Liabilities by Price Source—The table below presents the balances of Level 3 assets and liabilities measured at fair value with their corresponding pricing sources.

	As of September 30, 2016		
	Internal(1)	External(2)	Total
	(in millions)		
Obligations of U.S. states and their political subdivisions	\$5	\$ 0	\$5
Foreign government bonds	0	170	170
Corporate securities(3)	2,040	466	2,506
Asset-backed securities(4)	159	3,256	3,415
Commercial mortgage-backed securities	14	150	164
Residential mortgage-backed securities	25	148	173
Equity securities	121	729	850
Other long-term investments	5	9	14
Short-term investments	1	0	1
Other assets	66	0	66
Subtotal excluding separate account assets	2,436	4,928	7,364
Separate account assets	1,277	696	1,973
Total assets	\$3,713	\$ 5,624	\$9,337
Future policy benefits	\$13,024	\$ 0	\$13,024
Other liabilities	19	0	19
Notes issued by consolidated VIEs	0	2,722	2,722
Total liabilities	\$13,043	\$ 2,722	\$15,765

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of December 31, 2015		
	Internal(1)	External(2)	Total
	(in millions)		
Obligations of U.S. states and their political subdivisions	\$6	\$ 0	\$6
Foreign government bonds	0	157	157
Corporate securities(3)	1,085	340	1,425
Asset-backed securities(4)	149	4,495	4,644
Commercial mortgage-backed securities	5	36	41
Residential mortgage-backed securities	37	150	187
Equity securities	63	792	855
Other long-term investments(5)	39	10	49
Other assets	12	0	12
Subtotal excluding separate account assets	1,396	5,980	7,376
Separate account assets(5)	1,024	971	1,995
Total assets	\$2,420	\$ 6,951	\$9,371
Future policy benefits	\$8,434	\$ 0	\$8,434
Other liabilities	2	0	2
Notes issued by consolidated VIEs	0	8,597	8,597
Total liabilities	\$8,436	\$ 8,597	\$17,033

Represents valuations reflecting both internally-derived and market inputs as well as third-party pricing information or quotes. See below for additional information related to internally-developed valuation for significant items in the above table.

(2) Represents unadjusted prices from independent pricing services and independent indicative broker quotes where pricing inputs are not readily available.

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

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

(5) Prior period amounts are presented on a basis consistent with the current period presentation, reflecting the adoption of ASU 2015-07.

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 (see narrative below for quantitative information for separate account assets).

	As of September 30, 2016						Impact of Increase in Input on Fair Value(1)
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	
	(in millions)						
Assets:							
Corporate securities(9)	\$2,040	Discounted cash flow	Discount rate	0.63%	-22.54%	6.74%	Decrease
		Market comparables	EBITDA multiples(2)	5.0X	-5.0X	5.0X	Increase

Edgar Filing: PRUDENTIAL FINANCIAL INC - Form 10-Q

	Liquidation	Liquidation value	10.31%	-95.48%	86.51%	Increase
Liabilities:						
Future policy	\$ 13,024	Discounted cash flow	Lapse rate(4)	0%	-13%	Decrease
benefits(3)			NPR spread(5)	0.36%	-1.74%	Decrease
			Utilization rate(6)	52%	-96%	Increase
			Withdrawal rate	See table footnote (7) below.		
			Mortality rate(8)	0%	-14%	Decrease
			Equity volatility curve	17%	-25%	Increase

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of December 31, 2015							
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
(in millions)							
Assets:							
Corporate securities(9)	\$1,085	Discounted cash flow	Discount rate	0.93%	-25%	7.66%	Decrease
		Market comparables	EBITDA multiples(2)	1.4X	-5.0X	3.7X	Increase
		Liquidation	Liquidation value	15.79%	-29.33%	17.77%	Increase
Liabilities:							
Future policy benefits(3)	\$8,434	Discounted cash flow	Lapse rate(4)	0%	-14%		Decrease
			NPR spread(5)	0.06%	-1.76%		Decrease
			Utilization rate(6)	56%	-96%		Increase
			Withdrawal rate(7)	74%	-100%		Increase
			Mortality rate(8)	0%	-14%		Decrease
			Equity volatility curve	17%	-28%		Increase

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

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

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.

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.

To reflect NPR, the Company incorporates an additional spread over LIBOR into the discount rate used in the valuation of individual living benefit contracts in a liability position and generally not to those in a contra-liability position. The NPR spread reflects the financial strength ratings of the Company, as these are insurance liabilities and senior to debt. The additional spread over LIBOR is determined by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium.

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.

(7)

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, 2016, the minimum withdrawal rate assumption is 78% and the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.

- Range reflects the mortality rate for the vast majority of business with living benefits, with policyholders ranging from 35 to 90 years old. While the majority of living benefits have a minimum age requirement, certain benefits do not have an age restriction. This results in contractholders for certain benefits with mortality rates approaching 0%.
- (8) 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.
- (9) Includes assets classified as fixed maturities available-for-sale, trading account assets supporting insurance liabilities and other trading account assets.

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. Examples of such interrelationships for significant internally-priced Level 3 assets and liabilities are as follows:

Corporate Securities—The rate used to discount future cash flows reflects current risk-free rates plus credit and liquidity spread requirements that market participants would use to value an asset. The discount rate may be influenced by many factors, including market cycles, expectations of default, collateral, term and asset complexity. Each of these factors can influence discount rates, either in isolation, or in response to other factors.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Future Policy Benefits—The Company expects efficient benefit utilization and withdrawal rates to generally be correlated with lapse rates. However, behavior is generally highly dependent on the facts and circumstances surrounding the individual contractholder, such as their liquidity needs or tax situation, which could drive lapse behavior independent of other contractholder behavior assumptions. To the extent more efficient contractholder behavior results in greater in-the-moneyness at the contract level, lapse rates may decline for those contracts. Similarly, to the extent that increases in equity volatility are correlated with overall declines in the capital markets, lapse rates may decline as contracts become more in-the-money.

Separate Account Assets—In addition to the significant internally-priced Level 3 assets and liabilities presented and described above, the Company also has internally-priced separate account assets reported within Level 3. 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 Consolidated Statements of Financial Position. As a result, changes in value associated with these investments do not impact the Company's Consolidated Statements of Operations. Quantitative information about significant internally-priced Level 3 separate account assets is as follows:

Commercial Mortgage Loans—Separate account assets include \$1,012 million and \$960 million of commercial mortgage loans as of September 30, 2016 and December 31, 2015, respectively, that are classified as Level 3 and reported at fair value. Commercial mortgage loans are primarily valued internally using discounted cash flow techniques, as described further under “—Fair Value of Financial Instruments.” The primary unobservable input used is the spread to discount cash flows, which ranged from 1.30% to 3.01% (1.46% weighted average) as of September 30, 2016, and 1.49% to 4.81% (1.79% weighted average) as of December 31, 2015. In isolation, an increase (decrease) in the value of this input would result in a lower (higher) fair value measurement.

Valuation Process for Fair Value Measurements Categorized within Level 3—The Company has established an internal control infrastructure over the valuation of financial instruments that requires ongoing oversight by its various business groups. These management control functions are segregated from the trading and investing functions. For invested assets, the Company has established oversight teams, often in the form of pricing committees within each asset management group. The teams, which typically include representation from investment, accounting, operations, legal and other disciplines are responsible for overseeing and monitoring the pricing of the Company's investments and performing periodic due diligence reviews of independent pricing services. An actuarial valuation team oversees the valuation of living benefit features of the Company's variable annuity contracts.

The Company has also established policies and guidelines that require the establishment of valuation methodologies and consistent application of such methodologies. These policies and guidelines govern the use of inputs and price source hierarchies and provide controls around the valuation processes. These controls include appropriate review and analysis of investment prices against market activity or indicators of reasonableness, analysis of portfolio returns to corresponding benchmark returns, back-testing, review of bid-ask spreads to assess activity, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. For living benefit features of the Company's variable annuity products, the actuarial valuation unit periodically tests contract input data and actuarial assumptions are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data. The valuation policies and guidelines are reviewed and updated as appropriate.

Within the trading and investing functions, the Company has established policies and procedures that relate to the approval of all new transaction types, transaction pricing sources and fair value hierarchy coding within the financial reporting system. For variable annuity product changes or new launches of living benefit features, the actuarial valuation unit validates input logic and new product features and agrees new input data directly to source documents.

Changes in Level 3 Assets and Liabilities—The following tables provide summaries of the 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.

60

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016						
	Fixed Maturities		Available-For-Sale				
	U.S. State	Foreign Government	U.S. Corporate Public Securities	U.S. Corporate Private Securities	Foreign Corporate Public Securities	Foreign Corporate Private Securities	
	(in millions)						
Fair Value, beginning of period	\$5	\$ 124	\$ 211	\$ 1,256	\$ 92	\$ 695	
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	(8	) 0	0
Included in other comprehensive income (loss)	0	1	2	10	1	9	
Net investment income	0	0	0	2	0	1	
Purchases	0	0	8	46	14	7	
Sales	0	0	0	0	0	(7)
Issuances	0	0	0	0	0	0	
Settlements	0	0	0	(16) (4) (136)
Foreign currency translation	0	5	3	2	2	2	
Other(1)	0	0	0	0	0	0	
Transfers into Level 3(2)	0	0	23	0	61	111	
Transfers out of Level 3(2)	0	0	(19) (7) (24) (56)
Fair Value, end of period	\$5	\$ 130	\$ 228	\$ 1,285	\$ 142	\$ 626	
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ (9	) \$ 0	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016		
	Fixed Maturities Available-For-Sale		
	Asset- Backed(7)	Commercial Mortgage- Backed	Residential Mortgage- Backed
	(in millions)		
Fair Value, beginning of period	\$3,081	\$ 3	\$ 183
Total gains (losses) (realized/unrealized):			
Included in earnings:			
Realized investment gains (losses), net	5	0	0
Included in other comprehensive income (loss)	15	(7	) (1
Net investment income	3	0	0
Purchases	913	148	1
Sales	(355	) 0	(6
Issuances	0	0	0
Settlements	(84	) (1	) (18
Foreign currency translation	11	1	12
Other(1)	4	0	0
Transfers into Level 3(2)	338	19	0
Transfers out of Level 3(2)	(756	) 0	0
Fair Value, end of period	\$3,175	\$ 163	\$ 171
Unrealized gains (losses) for assets still held(3):			
Included in earnings:			
Realized investment gains (losses), net	\$0	\$ 0	\$ 0
Other income	\$0	\$ 0	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016						
	Trading Account Assets						
	Foreign Government	Corporate	Asset- Backed(7)	Commercial Mortgage- Backed	Residential Mortgage- Backed	Equity	All Other Activity
	(in millions)						
Fair Value, beginning of period	\$38	\$ 216	\$ 305	\$ 1	\$ 4	\$585	\$ 2
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	0	0
Other income	0	3	1	(1)	(1)	11	(1)
Net investment income	0	0	0	0	0	0	0
Purchases	2	0	30	0	0	5	0
Sales	0	0	(26)	0	0	(36)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(3)	(4)	0	(1)	(31)	0
Foreign currency translation	0	0	0	0	0	18	0
Other(1)	0	0	1	1	0	0	1
Transfers into Level 3(2)	0	9	29	0	0	0	0
Transfers out of Level 3(2)	0	0	(96)	0	0	0	0
Fair Value, end of period	\$40	\$ 225	\$ 240	\$ 1	\$ 2	\$552	\$ 2
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ 0	\$ 0	\$0	\$ 0
Other income	\$0	\$ 3	\$ 1	\$ 0	\$ 0	\$12	\$ 0

Table of Contents

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(1)	0	0	0	0
Transfers into Level 3(2)	0	0	0	0
Transfers out of Level 3(2)	0	0	0	0
Fair Value, end of period	\$298	\$ 14	\$ 1	\$ 64
Unrealized gains (losses) for assets still held(3):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ 18
Other income	\$0	\$ 0	\$ 0	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016			
	Separate Future	Other	Notes Issued	
	Account Policy	Liabilities	by	Consolidated
	Assets(4)Benefits		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(1)	0	0	(6)	622
Transfers into Level 3(2)	63	0	0	0
Transfers out of Level 3(2)	(70)	0	0	0
Fair Value, end of period	\$1,973	\$(13,024)	\$ (19)	\$ (2,722)
Unrealized gains (losses) for assets/liabilities still held(3):				
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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2016					
	Fixed Maturities		Available-For-Sale			
	U.S. State	Foreign Government	U.S. Corporate Public Securities	U.S. Corporate Private Securities	Foreign Corporate Public Securities	Foreign Corporate Private Securities
	(in millions)					
Fair Value, beginning of period	\$6	\$ 123	\$ 205	\$ 694	\$ 44	\$ 279
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	0	(95	) 0	(1)
Included in other comprehensive income (loss)	0	2	4	32	3	3
Net investment income	0	0	0	6	0	1
Purchases	0	0	21	115	41	89
Sales	0	0	(1	) 0	(1	) (11)
Issuances	0	0	0	0	0	0
Settlements	(1	) 0	(1	) (59	) (4	) (214)
Foreign currency translation	0	5	8	5	10	11
Other(1)	0	0	(13	) 0	13	0
Transfers into Level 3(2)	0	0	25	657	84	550
Transfers out of Level 3(2)	0	0	(20	) (70	) (48	) (81)
Fair Value, end of period	\$5	\$ 130	\$ 228	\$ 1,285	\$ 142	\$ 626
Unrealized gains (losses) for assets still held(3):						
Included in earnings:						
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ (90	) \$ 0	\$ (1)

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2016		
	Fixed Maturities Available-For-Sale		
	Asset- Backed(7)	Commercial Mortgage- Backed	Residential Mortgage- Backed
	(in millions)		
Fair Value, beginning of period	\$4,048	\$ 38	\$ 183
Total gains (losses) (realized/unrealized):			
Included in earnings:			
Realized investment gains (losses), net	7	0	0
Included in other comprehensive income (loss)	(26)	(7)	1
Net investment income	12	0	(1)
Purchases	1,259	155	0
Sales	(363)	(34)	(7)
Issuances	0	0	0
Settlements	(284)	(2)	(37)
Foreign currency translation	52	1	32
Other(1)	118	0	0
Transfers into Level 3(2)	1,542	19	0
Transfers out of Level 3(2)	(3,190)	(7)	0
Fair Value, end of period	\$3,175	\$ 163	\$ 171
Unrealized gains (losses) for assets still held(3):			
Included in earnings:			
Realized investment gains (losses), net	\$0	\$ 0	\$ 0
Other income	\$0	\$ 0	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2016						
	Trading Account Assets						
	Foreign Government	Corporate	Asset- Backed(7)	Commercial Mortgage- Backed	Residential Mortgage- Backed	Equity	All Other Activity
	(in millions)						
Fair Value, beginning of period	\$34	\$ 203	\$ 596	\$ 3	\$ 4	\$589	\$ 5
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	0	0
Other income	0	(9)	(1)	(1)	(1)	6	0
Net investment income	0	1	1	0	0	0	0
Purchases	8	8	56	0	0	10	0
Sales	0	0	(26)	0	0	(48)	0
Issuances	0	0	0	0	0	0	0
Settlements	(2)	(38)	(8)	0	(2)	(108)	0
Foreign currency translation	0	0	(1)	0	0	60	0
Other(1)	0	(15)	21	(1)	1	15	(3)
Transfers into Level 3(2)	0	136	208	0	0	28	0
Transfers out of Level 3(2)	0	(61)	(606)	0	0	0	0
Fair Value, end of period	\$40	\$ 225	\$ 240	\$ 1	\$ 2	\$552	\$ 2
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ 0	\$ 0	\$0	\$ 0
Other income	\$0	\$ 12	\$ (1)	\$ (1)	\$ (1)	\$7	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine 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	\$266	\$ 49	\$ 0	\$ 7
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	2	(1)	0	41
Other income	0	0	0	0
Included in other comprehensive income (loss)	(27)	0	0	0
Net investment income	0	(1)	0	0
Purchases	61	0	1	16
Sales	(22)	0	0	0
Issuances	0	0	0	0
Settlements	(13)	0	0	0
Foreign currency translation	31	0	0	0
Other(1)	0	(33)	0	0
Transfers into Level 3(2)	7	0	0	0
Transfers out of Level 3(2)	(7)	0	0	0
Fair Value, end of period	\$298	\$ 14	\$ 1	\$ 64
Unrealized gains (losses) for assets still held(3):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$ (1)	\$ 0	\$ 41
Other income	\$0	\$ 0	\$ 0	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2015						
	Fixed Maturities Available-For-Sale(5)						
	U.S. States	Foreign Government	U.S. Corporate Public Securities	U.S. Corporate Private Securities	Foreign Corporate Public Securities	Foreign Corporate Private Securities	
	(in millions)						
Fair Value, beginning of period	\$20	\$ 151	\$ 228	\$ 505	\$ 196	\$ 174	
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	(2	) 0	(74)
Included in other comprehensive income (loss)	0	1	0	(4	) 1	19	
Net investment income(6)	0	0	0	4	0	0	
Purchases(6)	0	(1	) 149	58	20	27	
Sales	0	0	(150	) (1	) (7	) 0	
Issuances	0	0	0	0	0	0	
Settlements	0	0	0	(66	) (24	) (9)
Foreign currency translation	0	(4	) 1	0	3	0	
Transfers into Level 3(2)	0	(5	) 0	28	0	24	
Transfers out of Level 3(2)	(14	) (21	) (15	) 0	(7	) 0	
Fair Value, end of period	\$6	\$ 121	\$ 213	\$ 522	\$ 182	\$ 161	
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ (2	) \$ 0	\$ (62)

	Three Months Ended September 30, 2015			
	Fixed Maturities Available-For-Sale			
	Asset-Backed(7)	Commercial Mortgage-Backed	Residential Mortgage-Backed	
	(in millions)			
Fair Value, beginning of period	\$3,817	\$ 41	\$ 215	
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	18	1	0	
Included in other comprehensive income (loss)	(52) (1) (1)
Net investment income	5	0	(1)
Purchases	110	11	0	
Sales	(94)		