

**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, 2017**

OR

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

**For the Transition Period from                      to**

**Commission file number 333-18053**

**Pruco Life Insurance Company of New Jersey**

(Exact name of Registrant as specified in its charter)

New Jersey

(State or other jurisdiction of  
incorporation or organization)

22-2426091

(IRS Employer Identification No.)

213 Washington 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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |                                     |                                               |                          |
|-------------------------|-------------------------------------|-----------------------------------------------|--------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer                             | <input type="checkbox"/> |
| Non-accelerated filer   | <input checked="" type="checkbox"/> | (Do not check if a smaller reporting company) |                          |
|                         |                                     | Smaller reporting company                     | <input type="checkbox"/> |
|                         |                                     | Emerging growth company                       | <input type="checkbox"/> |

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

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

As of November 9, 2017, 400,000 shares of the registrant's Common Stock (par value \$5) were outstanding. As of such date, Pruco Life Insurance Company, an Arizona corporation, owned all of the Registrant's Common Stock.

**Pruco Life Insurance Company of New Jersey meets the conditions set  
forth in General Instruction (H) (1) (a) and (b) on Form 10-Q and  
is therefore filing this Form 10-Q in the reduced disclosure format.**

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## FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "includes," "plans," "assumes," "estimates," "projects," "intends," "should," "will," "shall" or variations of such 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 Pruco Life Insurance Company of New Jersey. There can be no assurance that future developments affecting Pruco Life Insurance Company of New Jersey 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) reestimates of our reserves for future policy benefits and claims; (6) 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; (7) changes in our assumptions related to deferred policy acquisition costs; (8) changes in our financial strength or credit ratings; (9) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX, Guideline AXXX and principles based reserving requirements; (10) investment losses, defaults and counterparty non-performance; (11) competition in our product lines and for personnel; (12) difficulties in marketing and distributing products through current or future distribution channels; (13) changes in tax law; (14) 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; (15) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (16) 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 Prudential Financial, Inc.; (17) 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; (18) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (19) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (20) possible difficulties in executing, integrating and realizing projected results of acquisitions, divestitures and restructurings; and (21) changes in accounting principles, practices or policies. Pruco Life Insurance Company of New Jersey does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2016 for discussion of certain risks relating to our business and investment in our securities.

**PART I—FINANCIAL INFORMATION**
**Item 1. Financial Statements**

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Unaudited Interim Consolidated Statements of Financial Position**  
**September 30, 2017 and December 31, 2016 (in thousands, except share amounts)**

|                                                                                                         | September 30, 2017   | December 31, 2016    |
|---------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                                           |                      |                      |
| Fixed maturities available-for-sale, at fair value (amortized cost: 2017—\$1,194,144; 2016—\$1,132,155) | \$ 1,238,247         | \$ 1,145,485         |
| Equity securities, available-for-sale, at fair value (cost: 2017—\$3,144; 2016—\$1,150)                 | 3,382                | 1,171                |
| Trading account assets, at fair value                                                                   | 13,952               | 12,793               |
| Policy loans                                                                                            | 190,753              | 187,242              |
| Short-term investments                                                                                  | 0                    | 11,007               |
| Commercial mortgage and other loans                                                                     | 124,536              | 160,939              |
| Other long-term investments                                                                             | 53,050               | 57,051               |
| Total investments                                                                                       | 1,623,920            | 1,575,688            |
| Cash and cash equivalents                                                                               | 42,818               | 56,984               |
| Deferred policy acquisition costs                                                                       | 140,470              | 135,759              |
| Accrued investment income                                                                               | 16,563               | 15,829               |
| Reinsurance recoverables                                                                                | 2,400,478            | 2,252,049            |
| Receivables from parent and affiliates                                                                  | 42,755               | 33,457               |
| Income taxes receivable                                                                                 | 0                    | 3,991                |
| Other assets                                                                                            | 26,423               | 27,151               |
| Separate account assets                                                                                 | 13,954,081           | 12,747,496           |
| <b>TOTAL ASSETS</b>                                                                                     | <b>\$ 18,247,508</b> | <b>\$ 16,848,404</b> |
| <b>LIABILITIES AND EQUITY</b>                                                                           |                      |                      |
| <b>LIABILITIES</b>                                                                                      |                      |                      |
| Policyholders' account balances                                                                         | \$ 2,049,402         | \$ 1,942,064         |
| Future policy benefits                                                                                  | 1,666,853            | 1,547,820            |
| Cash collateral for loaned securities                                                                   | 10,275               | 15,054               |
| Income taxes payable                                                                                    | 7,585                | 0                    |
| Payables to parent and affiliates                                                                       | 17,169               | 8,603                |
| Other liabilities                                                                                       | 91,824               | 80,610               |
| Separate account liabilities                                                                            | 13,954,081           | 12,747,496           |
| <b>TOTAL LIABILITIES</b>                                                                                | <b>17,797,189</b>    | <b>16,341,647</b>    |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 6)</b>                                              |                      |                      |
| <b>EQUITY</b>                                                                                           |                      |                      |
| Common stock (\$5 par value; 400,000 shares authorized, issued and outstanding)                         | 2,000                | 2,000                |
| Additional paid-in capital                                                                              | 211,961              | 209,786              |
| Retained earnings                                                                                       | 208,786              | 282,810              |
| Accumulated other comprehensive income                                                                  | 27,572               | 12,161               |
| <b>TOTAL EQUITY</b>                                                                                     | <b>450,319</b>       | <b>506,757</b>       |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                                     | <b>\$ 18,247,508</b> | <b>\$ 16,848,404</b> |

See Notes to Unaudited Interim Consolidated Financial Statements

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**Three and Nine Months Ended September 30, 2017 and 2016 (in thousands)**

|                                                                              | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                   |
|------------------------------------------------------------------------------|----------------------------------|------------------|---------------------------------|-------------------|
|                                                                              | 2017                             | 2016             | 2017                            | 2016              |
| <b>REVENUES</b>                                                              |                                  |                  |                                 |                   |
| Premiums                                                                     | \$ 3,426                         | \$ 4,904         | \$ 9,626                        | \$ (34,335)       |
| Policy charges and fee income                                                | 5,829                            | 5,530            | 29,734                          | 57,884            |
| Net investment income                                                        | 16,072                           | 22,667           | 49,186                          | 56,029            |
| Asset administration fees                                                    | 2,372                            | 2,113            | 6,866                           | 12,214            |
| Other income                                                                 | 896                              | 1,331            | 3,347                           | 2,799             |
| Realized investment gains (losses), net:                                     |                                  |                  |                                 |                   |
| Other-than-temporary impairments on fixed maturity securities                | 0                                | 0                | (80)                            | 0                 |
| Other realized investment gains (losses), net                                | (3,600)                          | (3,812)          | (9,963)                         | 93,445            |
| Total realized investment gains (losses), net                                | (3,600)                          | (3,812)          | (10,043)                        | 93,445            |
| <b>TOTAL REVENUES</b>                                                        | <b>24,995</b>                    | <b>32,733</b>    | <b>88,716</b>                   | <b>188,036</b>    |
| <b>BENEFITS AND EXPENSES</b>                                                 |                                  |                  |                                 |                   |
| Policyholders' benefits                                                      | (3,233)                          | 264              | 7,829                           | (2,414)           |
| Interest credited to policyholders' account balances                         | 8,444                            | 7,510            | 24,411                          | 36,117            |
| Amortization of deferred policy acquisition costs                            | 2,080                            | 1,381            | 7,969                           | 46,358            |
| General, administrative and other expenses                                   | 9,431                            | 10,741           | 27,860                          | 19,449            |
| <b>TOTAL BENEFITS AND EXPENSES</b>                                           | <b>16,722</b>                    | <b>19,896</b>    | <b>68,069</b>                   | <b>99,510</b>     |
| <b>INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES</b>                     | <b>8,273</b>                     | <b>12,837</b>    | <b>20,647</b>                   | <b>88,526</b>     |
| Income tax expense (benefit)(1)                                              | (3,036)                          | (406)            | (5,329)                         | 12,347            |
| <b>NET INCOME (LOSS)(1)</b>                                                  | <b>\$ 11,309</b>                 | <b>\$ 13,243</b> | <b>\$ 25,976</b>                | <b>\$ 76,179</b>  |
| Other comprehensive income (loss), before tax:                               |                                  |                  |                                 |                   |
| Foreign currency translation adjustments                                     | 12                               | 6                | 37                              | 27                |
| Net unrealized investment gains (losses):                                    |                                  |                  |                                 |                   |
| Unrealized investment gains (losses) for the period                          | 63                               | 1,240            | 22,659                          | 56,336            |
| Reclassification adjustment for (gains) losses included in net income (loss) | 470                              | 490              | 1,014                           | 1,005             |
| Net unrealized investment gains (losses)                                     | 533                              | 1,730            | 23,673                          | 57,341            |
| Other comprehensive income (loss), before tax                                | 545                              | 1,736            | 23,710                          | 57,368            |
| Less: Income tax expense (benefit) related to:                               |                                  |                  |                                 |                   |
| Foreign currency translation adjustments                                     | 4                                | 2                | 13                              | 9                 |
| Net unrealized investment gains (losses)                                     | 187                              | 604              | 8,286                           | 20,070            |
| Total                                                                        | 191                              | 606              | 8,299                           | 20,079            |
| Other comprehensive income (loss), net of tax                                | 354                              | 1,130            | 15,411                          | 37,289            |
| <b>COMPREHENSIVE INCOME (LOSS)(1)</b>                                        | <b>\$ 11,663</b>                 | <b>\$ 14,373</b> | <b>\$ 41,387</b>                | <b>\$ 113,468</b> |

(1) Prior period amounts for the three months ended September 30, 2016 have been revised to reflect a corrected tax expense amount.

See Notes to Unaudited Interim Consolidated Financial Statements

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Unaudited Interim Consolidated Statements of Equity**  
**Nine Months Ended September 30, 2017 and 2016 (in thousands)**

|                                                                  | Common Stock    | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Equity      |
|------------------------------------------------------------------|-----------------|----------------------------|-------------------|-----------------------------------------------|-------------------|
| <b>Balance, December 31, 2016</b>                                | \$ 2,000        | \$ 209,786                 | \$ 282,810        | \$ 12,161                                     | \$ 506,757        |
| Contributed capital                                              |                 | 1,300                      |                   |                                               | 1,300             |
| Dividend to parent                                               |                 |                            | (100,000)         |                                               | (100,000)         |
| Contributed (distributed) capital - parent/child asset transfers |                 | 875                        |                   |                                               | 875               |
| Comprehensive income (loss):                                     |                 |                            |                   |                                               |                   |
| Net income (loss)                                                |                 |                            | 25,976            |                                               | 25,976            |
| Other comprehensive income (loss), net of tax                    |                 |                            |                   | 15,411                                        | 15,411            |
| Total comprehensive income (loss)                                |                 |                            |                   |                                               | 41,387            |
| <b>Balance, September 30, 2017</b>                               | <u>\$ 2,000</u> | <u>\$ 211,961</u>          | <u>\$ 208,786</u> | <u>\$ 27,572</u>                              | <u>\$ 450,319</u> |

  

|                                                                  | Common Stock    | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Equity      |
|------------------------------------------------------------------|-----------------|----------------------------|-------------------|-----------------------------------------------|-------------------|
| <b>Balance, December 31, 2015</b>                                | \$ 2,000        | \$ 208,314                 | \$ 444,514        | \$ 11,781                                     | \$ 666,609        |
| Contributed capital                                              |                 | 1,300                      |                   |                                               | 1,300             |
| Dividend to parent                                               |                 |                            | (241,050)         |                                               | (241,050)         |
| Contributed (distributed) capital - parent/child asset transfers |                 | 173                        |                   |                                               | 173               |
| Comprehensive income (loss):                                     |                 |                            |                   |                                               |                   |
| Net income (loss)                                                |                 |                            | 76,179            |                                               | 76,179            |
| Other comprehensive income (loss), net of tax                    |                 |                            |                   | 37,289                                        | 37,289            |
| Total comprehensive income (loss)                                |                 |                            |                   |                                               | 113,468           |
| <b>Balance, September 30, 2016</b>                               | <u>\$ 2,000</u> | <u>\$ 209,787</u>          | <u>\$ 279,643</u> | <u>\$ 49,070</u>                              | <u>\$ 540,500</u> |

See Notes to Unaudited Interim Consolidated Financial Statements

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30, 2017 and 2016 (in thousands)**

|                                                                                                    | 2017            | 2016             |
|----------------------------------------------------------------------------------------------------|-----------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                       |                 |                  |
| Net income (loss)                                                                                  | \$ 25,976       | \$ 76,179        |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                 |                  |
| Policy charges and fee income                                                                      | (3,222)         | 23,345           |
| Interest credited to policyholders' account balances                                               | 24,411          | 36,117           |
| Realized investment (gains) losses, net                                                            | 10,043          | (93,445)         |
| Amortization and other non-cash items                                                              | (7,020)         | (12,068)         |
| Change in:                                                                                         |                 |                  |
| Future policy benefits                                                                             | 155,061         | 153,445          |
| Reinsurance recoverables                                                                           | (148,414)       | (148,730)        |
| Accrued investment income                                                                          | (734)           | 907              |
| Net payables to/receivables from parent and affiliates                                             | (1,000)         | (2,732)          |
| Deferred policy acquisition costs                                                                  | (8,006)         | 21,950           |
| Income taxes                                                                                       | 2,806           | (6,125)          |
| Deferred sales inducements                                                                         | 0               | (191)            |
| Derivatives, net                                                                                   | 2,102           | (2,221)          |
| Other, net                                                                                         | (478)           | (18,548)         |
| <b>Cash flows from (used in) operating activities</b>                                              | <b>51,525</b>   | <b>27,883</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                       |                 |                  |
| Proceeds from the sale/maturity/prepayment of:                                                     |                 |                  |
| Fixed maturities, available-for-sale                                                               | 177,511         | 219,826          |
| Short-term investments                                                                             | 32,985          | 20,130           |
| Policy loans                                                                                       | 16,727          | 17,235           |
| Ceded policy loans                                                                                 | (1,707)         | (1,197)          |
| Commercial mortgage and other loans                                                                | 51,232          | 34,970           |
| Other long-term investments                                                                        | 1,396           | 1,550            |
| Equity securities, available-for-sale                                                              | 5               | 11,151           |
| Payments for the purchase/origination of:                                                          |                 |                  |
| Fixed maturities, available-for-sale                                                               | (239,273)       | (494,197)        |
| Short-term investments                                                                             | (21,981)        | (35,419)         |
| Policy loans                                                                                       | (14,524)        | (13,525)         |
| Ceded policy loans                                                                                 | 1,986           | 2,529            |
| Commercial mortgage and other loans                                                                | (14,111)        | (5,567)          |
| Other long-term investments                                                                        | (2,945)         | (861)            |
| Equity securities, available-for-sale                                                              | (2,000)         | (2,000)          |
| Notes receivable from parent and affiliates, net                                                   | 234             | 1,668            |
| Derivatives, net                                                                                   | 226             | 3,629            |
| Other, net                                                                                         | (453)           | 0                |
| <b>Cash flows from (used in) investing activities</b>                                              | <b>(14,692)</b> | <b>(240,078)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                       |                 |                  |
| Policyholders' account deposits                                                                    | 367,812         | 322,683          |
| Ceded policyholders' account deposits                                                              | (248,482)       | (193,559)        |

|                                                                                                       |                  |                  |
|-------------------------------------------------------------------------------------------------------|------------------|------------------|
| Policyholders' account withdrawals                                                                    | (184,017)        | (156,536)        |
| Ceded policyholders' account withdrawals                                                              | 117,881          | 65,471           |
| Net change in securities sold under agreement to repurchase and cash collateral for loaned securities | (4,779)          | 9,865            |
| Dividend to parent                                                                                    | (100,000)        | 0                |
| Contributed capital                                                                                   | 0                | 15,515           |
| Contributed (distributed) capital - parent/child asset transfers                                      | 1,347            | 267              |
| Drafts outstanding                                                                                    | (761)            | (744)            |
| <b>Cash flows from (used in) financing activities</b>                                                 | <b>(50,999)</b>  | <b>62,962</b>    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                           | <b>(14,166)</b>  | <b>(149,233)</b> |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                                   | <b>56,984</b>    | <b>160,737</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                                       | <b>\$ 42,818</b> | <b>\$ 11,504</b> |

#### Significant Non-Cash Transactions

Cash Flows from Investing and Financing Activities for the nine months ended September 30, 2016 excludes certain non-cash transactions related to the Variable Annuities Recapture. See Note 1 for additional information.

See Notes to Unaudited Interim Consolidated Financial Statements

# PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

## Notes to Unaudited Interim Consolidated Financial Statements

### 1. BUSINESS AND BASIS OF PRESENTATION

Pruco Life Insurance Company of New Jersey ("PLNJ") is a wholly-owned subsidiary of Pruco Life Insurance Company ("Pruco Life"), which in turn is a wholly-owned subsidiary of The Prudential Insurance Company of America ("Prudential Insurance"). Prudential Insurance is a direct wholly-owned subsidiary of Prudential Financial, Inc. ("Prudential Financial"). PLNJ is a stock life insurance company organized in 1982 under the laws of the State of New Jersey. It is licensed to sell life insurance and annuities in New Jersey and New York only, and sells such products primarily through affiliated and unaffiliated distributors.

PLNJ has one subsidiary, formed in 2009 for the purpose of holding certain commercial loans and other investments. PLNJ and its subsidiary are together referred to as the "Company", "we" or "our" and all financial information is shown on a consolidated basis.

Through March 31, 2016, the Company reinsured the majority of its variable annuity living benefit guarantees to its affiliated companies, Pruco Reinsurance, Ltd. ("Pruco Re") and Pruco Life. Effective April 1, 2016, the Company recaptured the risks related to its variable annuity living benefit guarantees that were previously reinsured to Pruco Re and Pruco Life. In addition, the Company reinsured the variable annuity base contracts, along with the living benefit guarantees, to Prudential Insurance under a coinsurance and modified coinsurance agreement. This reinsurance agreement covers new and in force business. The product risks related to the reinsured business are being managed in Prudential Insurance. In addition, the living benefit hedging program related to the reinsured living benefit guarantees is being managed within Prudential Insurance. These series of transactions are collectively referred to as the "Variable Annuities Recapture".

The financial statement impacts of these transactions were as follows:

#### Affected Financial Statement Lines Only Interim Statement of Financial Position

|                                                | Balance as of<br>March 31, 2016 | Impacts of Recapture | Impacts of Reinsurance | Total         |
|------------------------------------------------|---------------------------------|----------------------|------------------------|---------------|
| (in millions)                                  |                                 |                      |                        |               |
| <b>ASSETS</b>                                  |                                 |                      |                        |               |
| Total investments(1)                           | \$ 1,809                        | \$ 350               | \$ (703)               | \$ 1,456      |
| Cash and cash equivalents                      | 49                              | 1                    | 54                     | 104           |
| Deferred policy acquisition costs              | 426                             | 0                    | (315)                  | 111           |
| Reinsurance recoverables                       | 1,790                           | (488)                | 909                    | 2,211         |
| Deferred sales inducements                     | 51                              | 0                    | (51)                   | 0             |
| Other assets                                   | 8                               | 0                    | 23                     | 31            |
| Income taxes                                   | 17                              | 28                   | 0                      | 45            |
| <b>TOTAL ASSETS</b>                            | <b>16,086</b>                   | <b>(109)</b>         | <b>(83)</b>            | <b>15,894</b> |
| <b>LIABILITIES AND EQUITY</b>                  |                                 |                      |                        |               |
| <b>LIABILITIES</b>                             |                                 |                      |                        |               |
| Income taxes                                   | \$ 0                            | \$ 0                 | \$ 55                  | \$ 55         |
| Short-term and long-term debt to affiliates(2) | 116                             | 0                    | (116)                  | 0             |
| Other liabilities                              | 77                              | 0                    | 0                      | 77            |
| <b>TOTAL LIABILITIES</b>                       | <b>15,443</b>                   | <b>0</b>             | <b>(61)</b>            | <b>15,382</b> |
| <b>EQUITY</b>                                  |                                 |                      |                        |               |
| Retained earnings(3)                           | 401                             | (109)                | (28)                   | 264           |
| Accumulated other comprehensive income         | 31                              | 0                    | 6                      | 37            |
| <b>TOTAL EQUITY</b>                            | <b>644</b>                      | <b>(109)</b>         | <b>(22)</b>            | <b>513</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>            | <b>16,086</b>                   | <b>(109)</b>         | <b>(83)</b>            | <b>15,894</b> |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

*Significant Non-Cash Transactions*

- (1) The decline in total investments includes non-cash activities of \$0.7 billion for asset transfers to Prudential Insurance related to the reinsurance transaction, partially offset by \$0.4 billion of assets received related to the recapture transaction with Pruco Re.
- (2) The Company recognized ceding commissions of \$0.4 billion, of which \$0.1 billion was in the form of reassignment of debt to Prudential Insurance.
- (3) Retained earnings includes dividends of \$0.3 billion to Pruco Life, and ultimately distributed to Prudential Financial as part of the Variable Annuities Recapture.

**Statement of Operations and Comprehensive Income (Loss)**

**Day 1 Impact of the Variable Annuities Recapture**

|                                                          | <b>Impacts of Recapture</b> | <b>Impacts of Reinsurance</b> | <b>Total Impacts</b> |
|----------------------------------------------------------|-----------------------------|-------------------------------|----------------------|
|                                                          | (in millions)               |                               |                      |
| <b>REVENUES</b>                                          |                             |                               |                      |
| Premiums                                                 | \$ 0                        | \$ (48)                       | \$ (48)              |
| Realized investment gains (losses), net                  | (137)                       | 268                           | 131                  |
| <b>TOTAL REVENUES</b>                                    | (137)                       | 220                           | 83                   |
| <b>BENEFITS AND EXPENSES</b>                             |                             |                               |                      |
| Policyholders' benefits                                  | 0                           | (26)                          | (26)                 |
| General, administrative and other expenses               | 0                           | (23)                          | (23)                 |
| <b>TOTAL BENEFITS AND EXPENSES</b>                       | 0                           | (49)                          | (49)                 |
| <b>INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES</b> | (137)                       | 269                           | 132                  |
| Income tax expense (benefit)                             | (28)                        | 55                            | 27                   |
| <b>NET INCOME (LOSS)</b>                                 | \$ (109)                    | \$ 214                        | \$ 105               |

As part of the Variable Annuities Recapture, the Company received invested assets of \$0.4 billion as consideration from Pruco Re, which is equivalent to the amount of statutory reserve credit taken as of March 31, 2016 and unwound the associated reinsurance recoverable of \$0.5 billion. As a result, the Company recognized a loss of \$0.1 billion immediately.

As part of the Variable Annuities Recapture, the Company transferred invested assets of \$0.7 billion to Prudential Insurance and established reinsurance recoverables of \$1 billion. In addition, the Company received ceding commissions of \$0.4 billion from Prudential Insurance, of which \$0.1 billion were in the form of reassignment of debt to Prudential Insurance. Also, the Company unwound its deferred policy acquisition costs ("DAC") and deferred sales inducements ("DSI") balances related to its variable annuity contracts as of March 31, 2016, which was equivalent to the ceding commission. For the reinsurance of the variable annuity base contracts, the Company recognized a loss of \$23 million, which was deferred and will subsequently be amortized through General, administrative and other expenses. For the reinsurance of the living benefit guarantees, the Company recognized a benefit of \$0.3 billion immediately since the reinsurance contract is accounted for as a free-standing derivative.

The Company also paid a dividend of \$0.2 billion to Pruco Life, which was ultimately distributed to Prudential Financial.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The following table summarizes the asset transfers related to Variable Annuities Recapture between the Company and its affiliates.

| Affiliate               | Period          | Transaction | Security Type                                                                                         | Fair Value | Book Value | APIC<br>Increase/(Decrease)<br>(in millions) | Realized Investment<br>Gain/(Loss), Net |
|-------------------------|-----------------|-------------|-------------------------------------------------------------------------------------------------------|------------|------------|----------------------------------------------|-----------------------------------------|
| Pruco Re                | Apr - June 2016 | Purchase    | Derivatives                                                                                           | \$ 350     | \$ 350     | \$ 0                                         | \$ 0                                    |
| Prudential<br>Insurance | Apr - June 2016 | Sale        | Fixed Maturity, Trading Account Assets,<br>Equity Securities, Commercial Mortgages<br>and Derivatives | \$ (717)   | \$ (703)   | \$ 15                                        | \$ 0                                    |

***Basis of Presentation***

The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Intercompany balances and transactions have been eliminated.

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

***Use of Estimates***

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

The most significant estimates include those used in determining DAC and related amortization; amortization of DSI; valuation of investments including derivatives and the recognition of other-than-temporary impairments ("OTTI"); future policy benefits including guarantees; reinsurance recoverables; 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.

***Revision to Prior Period Consolidated Financial Statements***

In 2016, the Company identified errors in the presentation of certain activity related to the Variable Annuities Recapture that impacted several line items within our previously issued Consolidated Statements of Cash Flows for the interim period ended September 30, 2016. Management assessed the materiality of the misstatements on prior period financial statements in accordance with SEC Staff Accounting Bulletin ("SAB") No. 99, Materiality, codified in Accounting Standards Codification ("ASC") 250-10, Accounting Changes and Error Corrections ("ASC 250"), and concluded that these misstatements were not material to any prior interim periods. Accordingly, the Consolidated Statements of Cash Flows for the nine months ended September 30, 2016, which is presented herein, have been revised, as presented below:

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                       | (UNAUDITED)                          |                 |                  |
|-------------------------------------------------------|--------------------------------------|-----------------|------------------|
|                                                       | Nine Months Ended September 30, 2016 |                 |                  |
|                                                       | As Previously<br>Reported            | Revision        | As Revised       |
|                                                       | (in thousands)                       |                 |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>          |                                      |                 |                  |
| Reinsurance recoverables                              | \$ (154,616)                         | \$ 5,886        | \$ (148,730)     |
| Other, net                                            | 32,283                               | (50,831)        | (18,548)         |
| <b>Cash flows from (used in) operating activities</b> | <b>72,828</b>                        | <b>(44,945)</b> | <b>27,883</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>          |                                      |                 |                  |
| Proceeds from the sale/maturity/prepayment of:        |                                      |                 |                  |
| Fixed maturities, available-for-sale                  | 179,826                              | 40,000          | 219,826          |
| <b>Cash flows from (used in) investing activities</b> | <b>(280,078)</b>                     | <b>40,000</b>   | <b>(240,078)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>          |                                      |                 |                  |
| Ceded policyholders' account deposits                 | (122,113)                            | (71,446)        | (193,559)        |
| Ceded policyholders' account withdrawals              | 3,295                                | 62,176          | 65,471           |
| Contributed capital                                   | 1,300                                | 14,215          | 15,515           |
| <b>Cash flows from (used in) financing activities</b> | <b>58,017</b>                        | <b>4,945</b>    | <b>62,962</b>    |

***Reclassifications***

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

**2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS**

***Accounting for Certain Reinsurance Contracts in the Individual Life business***

During the second quarter of 2017, the Company recognized a pre-tax charge of \$2 million, reflecting a change in estimate of reinsurance cash flows associated with universal life products as well as a change in method of reflecting these cash flows in the financial statements. Under the previous method of accounting, with the exception of recoveries pertaining to no lapse guarantees, reinsurance cash flows (e.g., premiums and recoveries) were generally recognized as they occurred. Under the new method, the expected reinsurance cash flows are recognized more ratably over the life of the underlying reinsured policies. In conjunction with this change, the way in which reinsurance is reflected in estimated gross profits used for the amortization of unearned revenue reserves and DAC was also revised. The change represents a change in accounting estimate effected by a change in accounting principle and was included within the Company's annual reviews and update of assumptions and other refinements. The change in accounting estimate reflected insights gained from revised cash flow modeling enabled by a systems conversion, which prompted the change to a preferable accounting method. This new methodology is viewed as preferable as the Company believes it better reflects the economics of reinsurance transactions by aligning the results of reinsurance activity more closely to the underlying direct insurance activity and by better reflecting the profit pattern of this business for purposes of the amortization of the balances noted above.

The impacts of the pre-tax charge of \$2 million in the second quarter of 2017 were as follows:

|                                                               |    | Impact of Change in Accounting for<br>Certain Reinsurance Contracts(1) |
|---------------------------------------------------------------|----|------------------------------------------------------------------------|
|                                                               |    | (in millions)                                                          |
| Decrease in Policy charges and fee income                     | \$ | (10)                                                                   |
| Decrease in Policyholders' benefits                           |    | 10                                                                     |
| Increase in Amortization of deferred policy acquisition costs |    | (2)                                                                    |
| Pre-tax charge to income                                      | \$ | (2)                                                                    |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

(1) The corresponding impacts to the Consolidated Statement of Financial Position were a \$13 million increase in "Other liabilities", a \$9 million increase in "Reinsurance recoverables", a \$4 million decrease in "Policyholders' account balances" and a \$2 million decrease in "Deferred policy acquisition costs".

**Recent Accounting Pronouncements**

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

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

There have been no ASU adopted during the nine months ended September 30, 2017.

*ASU issued but not yet adopted as of the nine months ended September 30, 2017*

| Standard                                                                                                                                     | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Effective date and method of adoption                                                                                                                                                                                                                                                                                                                 | Effect on the financial statements or other significant matters                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ASU 2014-09,</b><br><i>Revenue from Contracts with Customers (Topic 606)</i>                                                              | The ASU is based on the core principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, and assets recognized from the costs to obtain or fulfill a contract with a customer. Revenue recognition for insurance contracts and financial instruments is explicitly scoped out of the standard. | January 1, 2018 using the modified retrospective method.                                                                                                                                                                                                                                                                                              | Based on the assessment completed to date, the Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.                                                                                                                                                                                                                                                                                                                                                                            |
| <b>ASU 2016-01,</b><br>Financial Instruments - Overall (Subtopic 825-10):<br>Recognition and Measurement of Financial Assets and Liabilities | The ASU revises an entity's accounting related to the recognition and measurement of certain equity investments and the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU requires equity investments, except for those accounted for using the equity method, to be measured at fair value with changes in fair value recognized in net income. The standard also amends certain disclosure requirements associated with the fair value of financial instruments.                                                                                                                     | January 1, 2018 using the modified retrospective method which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. The amendments are to be applied prospectively as they relate to equity investments without readily determinable fair value that exist as of the date of adoption. | The transition impact to the Company's Consolidated Statements of Financial Position will depend on the net unrealized gain or loss on equity securities and the embedded unrealized gain or loss on equity investments currently accounted for under the cost method as of the effective date. As of September 30, 2017 the net unrealized gain on equity investments is \$0.5 million. The cumulative-effect adjustment ultimately recorded on January 1, 2018 will differ from that amount after taking into account portfolio activity and market movements that occur during the fourth quarter of 2017. |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| Standard                                                                                                                                                            | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Effective date and method of adoption                                                                                                                                                                                                                                                                                                                             | Effect on the financial statements or other significant matters                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ASU 2016-13</b> , Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments                                         | This ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held to maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard also modifies the current other-than-temporary impairment standard for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces existing standard for purchased credit deteriorated loans and debt securities. | January 1, 2020 using the modified retrospective method, however prospective application is required for purchased credit deteriorated assets previously accounted for under ASU 310-30 and for debt securities for which an other-than-temporary-impairment was recognized prior to the date of adoption. Early adoption is permitted beginning January 1, 2019. | The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.                                                                    |
| <b>ASU 2016-15</b> , Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a Consensus of the Emerging Issues Task Force) | This ASU addresses diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard provides clarity on the treatment of eight specifically defined types of cash inflows and outflows.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | January 1, 2018 using the retrospective method (with early adoption permitted provided that all amendments are adopted in the same period).                                                                                                                                                                                                                       | Based on the assessment completed to date, the Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. |
| <b>Update 2016-18</b> , Statement of Cash Flows (Topic 230): Restricted Cash                                                                                        | In November 2016, the FASB issued this ASU to address diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing, or financing activities, or as a combination of those activities in the Statement of Cash Flows. The ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories will no longer be presented in the Statement of Cash Flows.                                                                                                                                                                                                                                                                                                                    | January 1, 2018 using the retrospective method (with early adoption permitted).                                                                                                                                                                                                                                                                                   | Based on the assessment completed to date, the Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements  |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

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

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**3. INVESTMENTS**

***Fixed Maturities and Equity Securities***

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

|                                                                                      | September 30, 2017        |                              |                               |                     |                    |
|--------------------------------------------------------------------------------------|---------------------------|------------------------------|-------------------------------|---------------------|--------------------|
|                                                                                      | Amortized<br>Cost or Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value       | OTTI<br>in AOCI(3) |
|                                                                                      | (in thousands)            |                              |                               |                     |                    |
| <b>Fixed maturities, available-for-sale:</b>                                         |                           |                              |                               |                     |                    |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 17,926                 | \$ 1,749                     | \$ 0                          | \$ 19,675           | \$ 0               |
| Obligations of U.S. states and their political subdivisions                          | 117,113                   | 4,278                        | 20                            | 121,371             | 0                  |
| Foreign government bonds                                                             | 30,183                    | 443                          | 153                           | 30,473              | 0                  |
| Public utilities                                                                     | 201,224                   | 11,272                       | 466                           | 212,030             | 0                  |
| All other U.S. public corporate securities                                           | 333,433                   | 20,525                       | 1,469                         | 352,489             | (45)               |
| All other U.S. private corporate securities                                          | 172,223                   | 3,000                        | 1,632                         | 173,591             | 0                  |
| All other foreign public corporate securities                                        | 37,172                    | 1,394                        | 565                           | 38,001              | 0                  |
| All other foreign private corporate securities                                       | 131,048                   | 3,888                        | 1,227                         | 133,709             | 0                  |
| Asset-backed securities(1)                                                           | 25,343                    | 1,125                        | 0                             | 26,468              | (55)               |
| Commercial mortgage-backed securities                                                | 118,872                   | 2,145                        | 1,157                         | 119,860             | 0                  |
| Residential mortgage-backed securities(2)                                            | 9,607                     | 973                          | 0                             | 10,580              | (89)               |
| Total fixed maturities, available-for-sale                                           | <u>\$ 1,194,144</u>       | <u>\$ 50,792</u>             | <u>\$ 6,689</u>               | <u>\$ 1,238,247</u> | <u>\$ (189)</u>    |
| <b>Equity securities, available-for-sale:</b>                                        |                           |                              |                               |                     |                    |
| Common stocks:                                                                       |                           |                              |                               |                     |                    |
| Mutual funds                                                                         | \$ 3,144                  | \$ 238                       | \$ 0                          | \$ 3,382            |                    |
| Total equity securities, available-for-sale                                          | <u>\$ 3,144</u>           | <u>\$ 238</u>                | <u>\$ 0</u>                   | <u>\$ 3,382</u>     |                    |

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

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

(3) Represents the amount of OTTI losses in "Accumulated other comprehensive income (loss)" ("AOCI"), which were not included in earnings. Amount excludes \$0.4 million of net unrealized gains on impaired available-for-sale securities relating to changes in the value of such securities subsequent to the impairment measurement date.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                                      | December 31, 2016         |                              |                               |               |                    |
|--------------------------------------------------------------------------------------|---------------------------|------------------------------|-------------------------------|---------------|--------------------|
|                                                                                      | Amortized<br>Cost or Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | OTTI<br>in AOCI(3) |
|                                                                                      | (in thousands)            |                              |                               |               |                    |
| Fixed maturities, available-for-sale:                                                |                           |                              |                               |               |                    |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 18,206                 | \$ 1,967                     | \$ 0                          | \$ 20,173     | \$ 0               |
| Obligations of U.S. states and their political subdivisions                          | 95,588                    | 1,629                        | 503                           | 96,714        | 0                  |
| Foreign government bonds                                                             | 28,339                    | 20                           | 990                           | 27,369        | 0                  |
| Public utilities                                                                     | 144,767                   | 5,820                        | 1,389                         | 149,198       | 0                  |
| All other U.S. public corporate securities                                           | 335,839                   | 13,793                       | 4,539                         | 345,093       | (45)               |
| All other U.S. private corporate securities                                          | 167,986                   | 2,482                        | 2,335                         | 168,133       | 0                  |
| All other foreign public corporate securities                                        | 41,424                    | 1,086                        | 1,393                         | 41,117        | 0                  |
| All other foreign private corporate securities                                       | 121,772                   | 1,380                        | 4,622                         | 118,530       | 0                  |
| Asset-backed securities(1)                                                           | 36,576                    | 752                          | 12                            | 37,316        | (58)               |
| Commercial mortgage-backed securities                                                | 130,528                   | 1,901                        | 2,885                         | 129,544       | 0                  |
| Residential mortgage-backed securities(2)                                            | 11,130                    | 1,168                        | 0                             | 12,298        | (108)              |
| Total fixed maturities, available-for-sale                                           | \$ 1,132,155              | \$ 31,998                    | \$ 18,668                     | \$ 1,145,485  | \$ (211)           |
| Equity securities, available-for-sale:                                               |                           |                              |                               |               |                    |
| Common stocks:                                                                       |                           |                              |                               |               |                    |
| Mutual funds                                                                         | \$ 1,150                  | \$ 22                        | \$ 1                          | \$ 1,171      |                    |
| Total equity securities, available-for-sale                                          | \$ 1,150                  | \$ 22                        | \$ 1                          | \$ 1,171      |                    |

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

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

(3) Represents the amount of OTTI losses in AOCI, which were not included in earnings. Amount excludes \$0.4 million of net unrealized gains on impaired available-for-sale securities relating to changes in the value of such securities subsequent to the impairment measurement date.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

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

| September 30, 2017                                          |    |                         |            |                       |                         |            |    |                         |    |         |    |       |
|-------------------------------------------------------------|----|-------------------------|------------|-----------------------|-------------------------|------------|----|-------------------------|----|---------|----|-------|
| Less Than Twelve Months                                     |    |                         |            | Twelve Months or More |                         | Total      |    |                         |    |         |    |       |
| Fair Value                                                  |    | Gross Unrealized Losses | Fair Value |                       | Gross Unrealized Losses | Fair Value |    | Gross Unrealized Losses |    |         |    |       |
| (in thousands)                                              |    |                         |            |                       |                         |            |    |                         |    |         |    |       |
| Fixed maturities, available-for-sale:                       |    |                         |            |                       |                         |            |    |                         |    |         |    |       |
| Obligations of U.S. states and their political subdivisions | \$ | 2,961                   | \$         | 20                    | \$                      | 0          | \$ | 0                       | \$ | 2,961   | \$ | 20    |
| Foreign government bonds                                    |    | 2,367                   |            | 19                    |                         | 6,224      |    | 134                     |    | 8,591   |    | 153   |
| Public utilities                                            |    | 20,434                  |            | 226                   |                         | 6,322      |    | 240                     |    | 26,756  |    | 466   |
| All other U.S. public corporate securities                  |    | 30,373                  |            | 279                   |                         | 37,309     |    | 1,190                   |    | 67,682  |    | 1,469 |
| All other U.S. private corporate securities                 |    | 40,664                  |            | 1,146                 |                         | 13,240     |    | 486                     |    | 53,904  |    | 1,632 |
| All other foreign public corporate securities               |    | 2,695                   |            | 31                    |                         | 7,471      |    | 534                     |    | 10,166  |    | 565   |
| All other foreign private corporate securities              |    | 17,497                  |            | 284                   |                         | 11,101     |    | 943                     |    | 28,598  |    | 1,227 |
| Asset-backed securities                                     |    | 0                       |            | 0                     |                         | 0          |    | 0                       |    | 0       |    | 0     |
| Commercial mortgage-backed securities                       |    | 49,579                  |            | 811                   |                         | 10,705     |    | 346                     |    | 60,284  |    | 1,157 |
| Total fixed maturities, available-for-sale                  | \$ | 166,570                 | \$         | 2,816                 | \$                      | 92,372     | \$ | 3,873                   | \$ | 258,942 | \$ | 6,689 |
| Equity securities, available-for-sale                       | \$ | 0                       | \$         | 0                     | \$                      | 0          | \$ | 0                       | \$ | 0       | \$ | 0     |

| December 31, 2016                                           |    |                         |            |                       |                         |            |    |                         |    |         |    |        |
|-------------------------------------------------------------|----|-------------------------|------------|-----------------------|-------------------------|------------|----|-------------------------|----|---------|----|--------|
| Less Than Twelve Months                                     |    |                         |            | Twelve Months or More |                         | Total      |    |                         |    |         |    |        |
| Fair Value                                                  |    | Gross Unrealized Losses | Fair Value |                       | Gross Unrealized Losses | Fair Value |    | Gross Unrealized Losses |    |         |    |        |
| (in thousands)                                              |    |                         |            |                       |                         |            |    |                         |    |         |    |        |
| Fixed maturities, available-for-sale:                       |    |                         |            |                       |                         |            |    |                         |    |         |    |        |
| Obligations of U.S. states and their political subdivisions | \$ | 35,521                  | \$         | 503                   | \$                      | 0          | \$ | 0                       | \$ | 35,521  | \$ | 503    |
| Foreign government bonds                                    |    | 23,492                  |            | 659                   |                         | 1,690      |    | 331                     |    | 25,182  |    | 990    |
| Public utilities                                            |    | 43,675                  |            | 1,361                 |                         | 170        |    | 28                      |    | 43,845  |    | 1,389  |
| All other U.S. public corporate securities                  |    | 139,525                 |            | 4,331                 |                         | 532        |    | 208                     |    | 140,057 |    | 4,539  |
| All other U.S. private corporate securities                 |    | 74,436                  |            | 1,644                 |                         | 9,315      |    | 691                     |    | 83,751  |    | 2,335  |
| All other foreign public corporate securities               |    | 16,231                  |            | 746                   |                         | 3,791      |    | 647                     |    | 20,022  |    | 1,393  |
| All other foreign private corporate securities              |    | 44,295                  |            | 2,791                 |                         | 12,254     |    | 1,831                   |    | 56,549  |    | 4,622  |
| Asset-backed securities                                     |    | 0                       |            | 0                     |                         | 8,972      |    | 12                      |    | 8,972   |    | 12     |
| Commercial mortgage-backed securities                       |    | 72,798                  |            | 2,885                 |                         | 401        |    | 0                       |    | 73,199  |    | 2,885  |
| Total fixed maturities, available-for-sale                  | \$ | 449,973                 | \$         | 14,920                | \$                      | 37,125     | \$ | 3,748                   | \$ | 487,098 | \$ | 18,668 |
| Equity securities, available-for-sale                       | \$ | 0                       | \$         | 0                     | \$                      | 25         | \$ | 1                       | \$ | 25      | \$ | 1      |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

As of September 30, 2017 and December 31, 2016, the gross unrealized losses on fixed maturity securities were composed of \$6.1 million and \$17.4 million, respectively, related to "1" highest or "2" high quality securities based on the National Association of Insurance Commissioners ("NAIC") or equivalent rating and \$0.6 million and \$1.3 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of September 30, 2017, the \$3.9 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in the finance, transportation and technology sectors of the Company's corporate securities. As of December 31, 2016, the \$3.7 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in the finance, energy and technology sectors of the Company's corporate securities. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the Company concluded that an adjustment to earnings for OTTI for these fixed maturity securities was not warranted at either September 30, 2017 or December 31, 2016. These conclusions were based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to general credit spread widening, increases in interest rates and foreign currency exchange rate movements. As of September 30, 2017, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

As of both September 30, 2017 and December 31, 2016, none of the gross unrealized losses on equity securities represented declines in value of 20% or more. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the Company concluded that an adjustment to earnings for OTTI for these equity securities was not warranted at either September 30, 2017 or December 31, 2016.

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

|                                              | September 30, 2017  |                     |
|----------------------------------------------|---------------------|---------------------|
|                                              | Amortized Cost      | Fair Value          |
|                                              | (in thousands)      |                     |
| <b>Fixed maturities, available-for-sale:</b> |                     |                     |
| Due in one year or less                      | \$ 18,442           | \$ 18,671           |
| Due after one year through five years        | 145,620             | 150,209             |
| Due after five years through ten years       | 315,537             | 321,360             |
| Due after ten years                          | 560,723             | 591,099             |
| Asset-backed securities                      | 25,343              | 26,468              |
| Commercial mortgage-backed securities        | 118,872             | 119,860             |
| Residential mortgage-backed securities       | 9,607               | 10,580              |
| Total fixed maturities, available-for-sale   | <u>\$ 1,194,144</u> | <u>\$ 1,238,247</u> |

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

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

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                   | Three Months Ended September 30, |          | Nine Months Ended September 30, |            |
|---------------------------------------------------|----------------------------------|----------|---------------------------------|------------|
|                                                   | 2017                             | 2016     | 2017                            | 2016       |
| (in thousands)                                    |                                  |          |                                 |            |
| <b>Fixed maturities, available-for-sale:</b>      |                                  |          |                                 |            |
| Proceeds from sales(1)                            | \$ 7,242                         | \$ 8,279 | \$ 99,849                       | \$ 120,773 |
| Proceeds from maturities/prepayments              | 11,653                           | 12,808   | 77,662                          | 59,057     |
| Gross investment gains from sales and maturities  | (419)                            | (495)    | 23                              | (49)       |
| Gross investment losses from sales and maturities | (51)                             | (7)      | (957)                           | (13)       |
| OTTI recognized in earnings(2)                    | 0                                | 0        | (80)                            | 0          |
| <b>Equity securities, available-for-sale:</b>     |                                  |          |                                 |            |
| Proceeds from sales                               | \$ 0                             | \$ 29    | \$ 5                            | \$ 11,151  |
| Gross investment gains from sales                 | 0                                | 12       | 0                               | 19         |
| Gross investment losses from sales                | 0                                | (1)      | 0                               | (962)      |
| OTTI recognized in earnings                       | 0                                | 0        | 0                               | 0          |

(1) Includes \$0.0 million and \$0.0 million of non-cash related proceeds for the nine months ended September 30, 2017 and 2016, respectively.

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

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

|                                                                                                                      | Three Months Ended<br>September 30, 2017 | Nine Months Ended<br>September 30, 2017 | Three Months Ended<br>September 30, 2016 | Nine Months Ended<br>September 30, 2016 |
|----------------------------------------------------------------------------------------------------------------------|------------------------------------------|-----------------------------------------|------------------------------------------|-----------------------------------------|
|                                                                                                                      | (in thousands)                           |                                         |                                          |                                         |
| <b>Credit loss impairments:</b>                                                                                      |                                          |                                         |                                          |                                         |
| Balance, beginning of period                                                                                         | \$ 565                                   | \$ 563                                  | \$ 579                                   | \$ 651                                  |
| Increases due to the passage of time on previously recorded credit losses                                            | 9                                        | 32                                      | 6                                        | 21                                      |
| Reductions for securities which matured, paid down, prepaid or were sold during the period                           | (9)                                      | (30)                                    | (11)                                     | (46)                                    |
| Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected | 0                                        | 0                                       | (5)                                      | (5)                                     |
| Assets transferred to parent and affiliates                                                                          | 0                                        | 0                                       | 0                                        | (52)                                    |
| Balance, end of period                                                                                               | \$ 565                                   | \$ 565                                  | \$ 569                                   | \$ 569                                  |

**Trading Account Assets**

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

|                              | September 30, 2017     |                  | December 31, 2016      |                  |
|------------------------------|------------------------|------------------|------------------------|------------------|
|                              | Amortized Cost or Cost | Fair Value       | Amortized Cost or Cost | Fair Value       |
| (in thousands)               |                        |                  |                        |                  |
| Fixed maturities             | \$ 7,446               | \$ 6,706         | \$ 7,446               | \$ 6,072         |
| Equity securities            | 4,970                  | 7,246            | 4,959                  | 6,721            |
| Total trading account assets | <u>\$ 12,416</u>       | <u>\$ 13,952</u> | <u>\$ 12,405</u>       | <u>\$ 12,793</u> |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The net change in unrealized gains (losses) from trading account assets still held at period end, recorded within “Other income,” was \$0.2 million and \$0.6 million for the three months ended September 30, 2017 and 2016, respectively, and \$1.1 million and \$1.9 million for the nine months ended September 30, 2017 and 2016, respectively.

**Commercial Mortgage and Other Loans**

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

|                                                                              | September 30, 2017       |            | December 31, 2016        |            |
|------------------------------------------------------------------------------|--------------------------|------------|--------------------------|------------|
|                                                                              | Amount<br>(in thousands) | % of Total | Amount<br>(in thousands) | % of Total |
| <b>Commercial mortgage and agricultural property loans by property type:</b> |                          |            |                          |            |
| Apartments/Multi-Family                                                      | \$ 43,097                | 34.6%      | \$ 55,754                | 34.6%      |
| Hospitality                                                                  | 10,329                   | 8.3        | 10,525                   | 6.5        |
| Industrial                                                                   | 10,941                   | 8.7        | 18,707                   | 11.6       |
| Office                                                                       | 21,557                   | 17.3       | 16,111                   | 10.0       |
| Other                                                                        | 19,165                   | 15.4       | 22,016                   | 13.7       |
| Retail                                                                       | 14,264                   | 11.4       | 31,054                   | 19.3       |
| Total commercial mortgage loans                                              | 119,353                  | 95.7       | 154,167                  | 95.7       |
| Agricultural property loans                                                  | 5,380                    | 4.3        | 6,981                    | 4.3        |
| Total commercial mortgage and agricultural property loans by property type   | 124,733                  | 100.0%     | 161,148                  | 100.0%     |
| Valuation allowance                                                          | (197)                    |            | (209)                    |            |
| Total commercial mortgage and other loans                                    | <u>\$ 124,536</u>        |            | <u>\$ 160,939</u>        |            |

As of September 30, 2017, the commercial mortgage and agricultural property loans were geographically dispersed throughout the United States (with the largest concentrations in Illinois (16%), New York (12%) and Texas (10%)) and included loans secured by properties in Europe.

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

|                                               | September 30, 2017           |                                |        |
|-----------------------------------------------|------------------------------|--------------------------------|--------|
|                                               | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Total  |
|                                               | (in thousands)               |                                |        |
| Allowance for credit losses:                  |                              |                                |        |
| Balance, beginning of year                    | \$ 207                       | \$ 2                           | \$ 209 |
| Addition to (release of) allowance for losses | (11)                         | (1)                            | (12)   |
| Charge-offs, net of recoveries                | 0                            | 0                              | 0      |
| Total ending balance                          | \$ 196                       | \$ 1                           | \$ 197 |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                               | December 31, 2016            |                                |               |
|-----------------------------------------------|------------------------------|--------------------------------|---------------|
|                                               | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Total         |
|                                               | (in thousands)               |                                |               |
| <b>Allowance for credit losses:</b>           |                              |                                |               |
| Balance, beginning of year                    | \$ 425                       | \$ 3                           | \$ 428        |
| Addition to (release of) allowance for losses | (218)                        | (1)                            | (219)         |
| Charge-offs, net of recoveries                | 0                            | 0                              | 0             |
| Total ending balance                          | <u>\$ 207</u>                | <u>\$ 2</u>                    | <u>\$ 209</u> |

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

|                                       | September 30, 2017           |                                |                   |
|---------------------------------------|------------------------------|--------------------------------|-------------------|
|                                       | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Total             |
|                                       | (in thousands)               |                                |                   |
| <b>Allowance for credit losses:</b>   |                              |                                |                   |
| Individually evaluated for impairment | \$ 0                         | \$ 0                           | \$ 0              |
| Collectively evaluated for impairment | 196                          | 1                              | 197               |
| Total ending balance(1)               | <u>\$ 196</u>                | <u>\$ 1</u>                    | <u>\$ 197</u>     |
| <b>Recorded investment(2):</b>        |                              |                                |                   |
| Individually evaluated for impairment | \$ 0                         | \$ 0                           | \$ 0              |
| Collectively evaluated for impairment | 119,353                      | 5,380                          | 124,733           |
| Total ending balance(1)               | <u>\$ 119,353</u>            | <u>\$ 5,380</u>                | <u>\$ 124,733</u> |

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

|                                       | December 31, 2016            |                                |                   |
|---------------------------------------|------------------------------|--------------------------------|-------------------|
|                                       | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Total             |
|                                       | (in thousands)               |                                |                   |
| <b>Allowance for credit losses:</b>   |                              |                                |                   |
| Individually evaluated for impairment | \$ 0                         | \$ 0                           | \$ 0              |
| Collectively evaluated for impairment | 207                          | 2                              | 209               |
| Total ending balance(1)               | <u>\$ 207</u>                | <u>\$ 2</u>                    | <u>\$ 209</u>     |
| <b>Recorded investment(2):</b>        |                              |                                |                   |
| Individually evaluated for impairment | \$ 0                         | \$ 0                           | \$ 0              |
| Collectively evaluated for impairment | 154,167                      | 6,981                          | 161,148           |
| Total ending balance(1)               | <u>\$ 154,167</u>            | <u>\$ 6,981</u>                | <u>\$ 161,148</u> |

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

The following tables set forth certain key credit quality indicators for commercial mortgage and agricultural property loans based upon the recorded investment gross of allowance for credit losses, as of the dates indicated:

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| September 30, 2017          |            |                |          |            |
|-----------------------------|------------|----------------|----------|------------|
| Debt Service Coverage Ratio |            |                |          |            |
|                             | ≥ 1.2X     | 1.0X to < 1.2X | < 1.0X   | Total      |
| (in thousands)              |            |                |          |            |
| <b>Loan-to-Value Ratio:</b> |            |                |          |            |
| 0%-59.99%                   | \$ 68,294  | \$ 0           | \$ 0     | \$ 68,294  |
| 60%-69.99%                  | 45,408     | 3,197          | 2,026    | 50,631     |
| 70%-79.99%                  | 0          | 5,808          | 0        | 5,808      |
| 80% or greater              | 0          | 0              | 0        | 0          |
| Total loans                 | \$ 113,702 | \$ 9,005       | \$ 2,026 | \$ 124,733 |

  

| December 31, 2016           |            |                |        |            |
|-----------------------------|------------|----------------|--------|------------|
| Debt Service Coverage Ratio |            |                |        |            |
|                             | ≥ 1.2X     | 1.0X to < 1.2X | < 1.0X | Total      |
| (in thousands)              |            |                |        |            |
| <b>Loan-to-Value Ratio:</b> |            |                |        |            |
| 0%-59.99%                   | \$ 103,315 | \$ 0           | \$ 0   | \$ 103,315 |
| 60%-69.99%                  | 32,965     | 5,394          | 0      | 38,359     |
| 70%-79.99%                  | 12,230     | 5,052          | 0      | 17,282     |
| 80% or greater              | 2,192      | 0              | 0      | 2,192      |
| Total loans                 | \$ 150,702 | \$ 10,446      | \$ 0   | \$ 161,148 |

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

| September 30, 2017          |            |                     |                     |                             |             |                       |
|-----------------------------|------------|---------------------|---------------------|-----------------------------|-------------|-----------------------|
|                             | Current    | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due(1) | Total Loans | Non-Accrual Status(2) |
| (in thousands)              |            |                     |                     |                             |             |                       |
| Commercial mortgage loans   | \$ 119,353 | \$ 0                | \$ 0                | \$ 0                        | \$ 119,353  | \$ 0                  |
| Agricultural property loans | 5,380      | 0                   | 0                   | 0                           | 5,380       | 0                     |
| Total                       | \$ 124,733 | \$ 0                | \$ 0                | \$ 0                        | \$ 124,733  | \$ 0                  |

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

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

| December 31, 2016           |            |                     |                     |                             |             |                       |
|-----------------------------|------------|---------------------|---------------------|-----------------------------|-------------|-----------------------|
|                             | Current    | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due(1) | Total Loans | Non-Accrual Status(2) |
| (in thousands)              |            |                     |                     |                             |             |                       |
| Commercial mortgage loans   | \$ 154,167 | \$ 0                | \$ 0                | \$ 0                        | \$ 154,167  | \$ 0                  |
| Agricultural property loans | 6,981      | 0                   | 0                   | 0                           | 6,981       | 0                     |
| Total                       | \$ 161,148 | \$ 0                | \$ 0                | \$ 0                        | \$ 161,148  | \$ 0                  |

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

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

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

For the three and nine months ended September 30, 2017, there were no commercial mortgage and other loans acquired, other than those through direct origination. For the three months ended September 30, 2017, there were no commercial mortgage and other loans sold. For the nine months ended September 30, 2017, there were \$42 million of commercial mortgage and other loans sold. For 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. For the three and nine months ended September 30, 2017, there were no transfers of commercial mortgage and other loans to related parties. For the three months ended September 30, 2016, there were no transfers of commercial mortgage and other loans to related parties. For the nine months ended September 30, 2016, there were \$51 million of commercial mortgage and other loans transferred to related parties.

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

**Other Long-Term Investments**

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

|                                               | September 30, 2017 | December 31, 2016 |
|-----------------------------------------------|--------------------|-------------------|
|                                               | (in thousands)     |                   |
| Company's investment in separate accounts     | \$ 2,777           | \$ 2,324          |
| Joint ventures and limited partnerships:      |                    |                   |
| Private equity                                | 13,073             | 11,883            |
| Hedge funds                                   | 27,719             | 25,836            |
| Real estate-related                           | 2,208              | 1,978             |
| Total joint ventures and limited partnerships | 43,000             | 39,697            |
| Derivatives                                   | 7,273              | 15,030            |
| Total other long-term investments             | \$ 53,050          | \$ 57,051         |

**Net Investment Income**

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

|                                             | Three Months Ended September 30, |           | Nine Months Ended September 30, |           |
|---------------------------------------------|----------------------------------|-----------|---------------------------------|-----------|
|                                             | 2017                             | 2016      | 2017                            | 2016      |
|                                             | (in thousands)                   |           |                                 |           |
| Fixed maturities, available-for-sale        | \$ 12,343                        | \$ 11,436 | \$ 35,989                       | \$ 36,232 |
| Trading account assets                      | 170                              | 171       | 500                             | 591       |
| Commercial mortgage and other loans         | 1,238                            | 1,780     | 4,846                           | 6,401     |
| Policy loans                                | 2,664                            | 2,647     | 7,888                           | 7,821     |
| Short-term investments and cash equivalents | 117                              | 158       | 374                             | 541       |
| Other long-term investments                 | 410                              | 7,283     | 2,349                           | 7,122     |
| Gross investment income                     | 16,942                           | 23,475    | 51,946                          | 58,708    |
| Less: investment expenses                   | (870)                            | (808)     | (2,760)                         | (2,679)   |
| Net investment income                       | \$ 16,072                        | \$ 22,667 | \$ 49,186                       | \$ 56,029 |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**Realized Investment Gains (Losses), Net**

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

|                                             | Three Months Ended September 30, |                   | Nine Months Ended September 30, |                  |
|---------------------------------------------|----------------------------------|-------------------|---------------------------------|------------------|
|                                             | 2017                             | 2016              | 2017                            | 2016             |
|                                             | (in thousands)                   |                   |                                 |                  |
| Fixed maturities                            | \$ (470)                         | \$ (502)          | \$ (1,014)                      | \$ (62)          |
| Equity securities                           | 0                                | 11                | 0                               | (943)            |
| Commercial mortgage and other loans         | 30                               | 4                 | 12                              | 250              |
| Joint ventures and limited partnerships     | 10                               | 70                | 11                              | 166              |
| Derivatives(1)                              | (3,174)                          | (3,395)           | (9,049)                         | 94,031           |
| Short term investments and cash equivalents | 4                                | 0                 | (3)                             | 3                |
| Realized investment gains (losses), net     | <u>\$ (3,600)</u>                | <u>\$ (3,812)</u> | <u>\$ (10,043)</u>              | <u>\$ 93,445</u> |

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

**Net Unrealized Gains (Losses) on Investments**

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

|                                                           | September 30, 2017 | December 31, 2016 |
|-----------------------------------------------------------|--------------------|-------------------|
|                                                           | (in thousands)     |                   |
| Fixed maturity securities, available-for-sale — with OTTI | \$ 166             | \$ 147            |
| Fixed maturity securities, available-for-sale — all other | 43,937             | 13,183            |
| Equity securities, available-for-sale                     | 238                | 21                |
| Derivatives designated as cash flow hedges(1)             | (1,754)            | 4,973             |
| Affiliated notes                                          | 731                | 846               |
| Other investments                                         | (268)              | (357)             |
| Net unrealized gains (losses) on investments              | <u>\$ 43,050</u>   | <u>\$ 18,813</u>  |

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

**Securities Lending and Repurchase Agreements**

In the normal course of business, the Company sells securities under agreements to repurchase and enters into securities lending transactions. The following table sets forth the composition of "Cash collateral for loaned securities," which represents the liability to return cash collateral received for the following types of securities loaned, as of the dates indicated:

|                                                                                      | September 30, 2017                                 |               |                  | December 31, 2016                                  |               |                  |
|--------------------------------------------------------------------------------------|----------------------------------------------------|---------------|------------------|----------------------------------------------------|---------------|------------------|
|                                                                                      | Remaining Contractual Maturities of the Agreements |               |                  | Remaining Contractual Maturities of the Agreements |               |                  |
|                                                                                      | Overnight & Continuous                             | Up to 30 Days | Total            | Overnight & Continuous                             | Up to 30 Days | Total            |
|                                                                                      | (in thousands)                                     |               |                  |                                                    |               |                  |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0                                               | \$ 0          | \$ 0             | \$ 0                                               | \$ 0          | \$ 0             |
| Foreign government bonds                                                             | 5,096                                              | 0             | 5,096            | 1,596                                              | 0             | 1,596            |
| U.S. public corporate securities                                                     | 4,224                                              | 0             | 4,224            | 13,458                                             | 0             | 13,458           |
| Foreign public corporate securities                                                  | 955                                                | 0             | 955              | 0                                                  | 0             | 0                |
| Total cash collateral for loaned securities(1)                                       | <u>\$ 10,275</u>                                   | <u>\$ 0</u>   | <u>\$ 10,275</u> | <u>\$ 15,054</u>                                   | <u>\$ 0</u>   | <u>\$ 15,054</u> |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

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

As of September 30, 2017 and December 31, 2016, the Company had no "Securities sold under agreements to repurchase."

**4. FAIR VALUE OF ASSETS AND LIABILITIES**

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

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

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

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

For a discussion of the Company's valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see Note 9 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**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.

|                                                                                      | As of September 30, 2017 |               |            |            |               |
|--------------------------------------------------------------------------------------|--------------------------|---------------|------------|------------|---------------|
|                                                                                      | Level 1                  | Level 2       | Level 3    | Netting(1) | Total         |
|                                                                                      | (in thousands)           |               |            |            |               |
| Fixed maturities, available-for-sale:                                                |                          |               |            |            |               |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0                     | \$ 19,675     | \$ 0       | \$ 0       | \$ 19,675     |
| Obligations of U.S. states and their political subdivisions                          | 0                        | 121,371       | 0          | 0          | 121,371       |
| Foreign government bonds                                                             | 0                        | 30,473        | 0          | 0          | 30,473        |
| U.S. corporate public securities                                                     | 0                        | 493,557       | 0          | 0          | 493,557       |
| U.S. corporate private securities                                                    | 0                        | 218,229       | 13,955     | 0          | 232,184       |
| Foreign corporate public securities                                                  | 0                        | 37,590        | 411        | 0          | 38,001        |
| Foreign corporate private securities                                                 | 0                        | 145,395       | 683        | 0          | 146,078       |
| Asset-backed securities (4)                                                          | 0                        | 15,827        | 10,641     | 0          | 26,468        |
| Commercial mortgage-backed securities                                                | 0                        | 118,367       | 1,493      | 0          | 119,860       |
| Residential mortgage-backed securities                                               | 0                        | 10,580        | 0          | 0          | 10,580        |
| Subtotal                                                                             | 0                        | 1,211,064     | 27,183     | 0          | 1,238,247     |
| Trading account assets:                                                              |                          |               |            |            |               |
| Corporate securities                                                                 | 0                        | 6,706         | 0          | 0          | 6,706         |
| Equity securities                                                                    | 0                        | 0             | 7,246      | 0          | 7,246         |
| Subtotal                                                                             | 0                        | 6,706         | 7,246      | 0          | 13,952        |
| Equity securities, available-for-sale                                                | 0                        | 3,382         | 0          | 0          | 3,382         |
| Short-term investments                                                               | 0                        | 0             | 0          | 0          | 0             |
| Cash equivalents                                                                     | 0                        | 0             | 0          | 0          | 0             |
| Other long-term investments(6)                                                       | 0                        | 13,745        | 0          | (6,473)    | 7,272         |
| Reinsurance recoverables                                                             | 0                        | 0             | 455,196    | 0          | 455,196       |
| Receivables from parent and affiliates                                               | 0                        | 9,598         | 0          | 0          | 9,598         |
| Subtotal excluding separate account assets                                           | 0                        | 1,244,495     | 489,625    | (6,473)    | 1,727,647     |
| Separate account assets(2)                                                           | 0                        | 13,946,964    | 0          | 0          | 13,946,964    |
| Total assets                                                                         | \$ 0                     | \$ 15,191,459 | \$ 489,625 | \$ (6,473) | \$ 15,674,611 |
| Future policy benefits(3)                                                            | \$ 0                     | \$ 0          | \$ 455,196 | \$ 0       | \$ 455,196    |
| Policyholders' account balances                                                      | 0                        | 0             | 4,217      | 0          | 4,217         |
| Payables to parent and affiliates                                                    | 0                        | 6,354         | 0          | (6,354)    | 0             |
| Total liabilities                                                                    | \$ 0                     | \$ 6,354      | \$ 459,413 | \$ (6,354) | \$ 459,413    |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                                      | As of December 31, 2016 |               |            |            |               |
|--------------------------------------------------------------------------------------|-------------------------|---------------|------------|------------|---------------|
|                                                                                      | Level 1                 | Level 2       | Level 3    | Netting(1) | Total         |
|                                                                                      | (in thousands)          |               |            |            |               |
| Fixed maturities, available-for-sale:                                                |                         |               |            |            |               |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0                    | \$ 20,173     | \$ 0       | \$ 0       | \$ 20,173     |
| Obligations of U.S. states and their political subdivisions                          | 0                       | 96,714        | 0          | 0          | 96,714        |
| Foreign government bonds                                                             | 0                       | 27,369        | 0          | 0          | 27,369        |
| U.S. corporate public securities                                                     | 0                       | 437,609       | 0          | 0          | 437,609       |
| U.S. corporate private securities                                                    | 0                       | 205,178       | 12,967     | 0          | 218,145       |
| Foreign corporate public securities                                                  | 0                       | 41,117        | 0          | 0          | 41,117        |
| Foreign corporate private securities                                                 | 0                       | 122,678       | 2,522      | 0          | 125,200       |
| Asset-backed securities(4)                                                           | 0                       | 34,988        | 2,328      | 0          | 37,316        |
| Commercial mortgage-backed securities                                                | 0                       | 129,544       | 0          | 0          | 129,544       |
| Residential mortgage-backed securities                                               | 0                       | 12,298        | 0          | 0          | 12,298        |
| Subtotal                                                                             | 0                       | 1,127,668     | 17,817     | 0          | 1,145,485     |
| Trading account assets:                                                              |                         |               |            |            |               |
| Corporate securities                                                                 | 0                       | 6,072         | 0          | 0          | 6,072         |
| Equity securities                                                                    | 0                       | 0             | 6,721      | 0          | 6,721         |
| Subtotal                                                                             | 0                       | 6,072         | 6,721      | 0          | 12,793        |
| Equity securities, available-for-sale                                                | 0                       | 1,171         | 0          | 0          | 1,171         |
| Short-term investments                                                               | 11,007                  | 0             | 0          | 0          | 11,007        |
| Cash equivalents                                                                     | 1,531                   | 1,999         | 0          | 0          | 3,530         |
| Other long-term investments(6)                                                       | 0                       | 16,610        | 0          | (1,580)    | 15,030        |
| Reinsurance recoverables                                                             | 0                       | 0             | 434,713    | 0          | 434,713       |
| Receivables from parent and affiliates                                               | 0                       | 3,873         | 5,993      | 0          | 9,866         |
| Subtotal excluding separate account assets                                           | 12,538                  | 1,157,393     | 465,244    | (1,580)    | 1,633,595     |
| Separate account assets(2)(5)                                                        | 0                       | 12,740,323    | 0          | 0          | 12,740,323    |
| Total assets                                                                         | \$ 12,538               | \$ 13,897,716 | \$ 465,244 | \$ (1,580) | \$ 14,373,918 |
| Future policy benefits(3)                                                            | \$ 0                    | \$ 0          | \$ 434,713 | \$ 0       | \$ 434,713    |
| Policyholders' account balances                                                      | 0                       | 0             | 2,298      | 0          | 2,298         |
| Payables to parent and affiliates                                                    | 0                       | 1,416         | 0          | (1,416)    | 0             |
| Total liabilities                                                                    | \$ 0                    | \$ 1,416      | \$ 437,011 | \$ (1,416) | \$ 437,011    |

- (1) "Netting" amounts represent cash collateral of \$0.1 million and \$0.2 million as of September 30, 2017 and December 31, 2016, respectively. The impact of offsetting asset and liability positions held with the same counterparty, subject to master netting arrangements.
- (2) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Consolidated Statements of Financial Position.
- (3) As of September 30, 2017, the net embedded derivative liability position of \$455 million includes \$77 million of embedded derivatives in an asset position and \$532 million of embedded derivatives in a liability position. As of December 31, 2016, the net embedded derivative liability position of \$435 million includes \$138 million of embedded derivatives in an asset position and \$573 million of embedded derivatives in a liability position.
- (4) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
- (5) Separate account assets included in the fair value hierarchy exclude investments in entities that calculate net asset value per share ("NAV") (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy include investments in real estate, for which fair value is measured at net asset value per share (or its equivalent). At both September 30, 2017 and December 31, 2016, the fair value of such investments was \$7 million.
- (6) Other long-term investments excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value ("NAV") per share (or its equivalent) as a practical expedient. As of September 30, 2017 and December 31, 2016, the fair value of such investments were \$0.8 million and \$0.2 million, respectively.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**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 at the value as of the beginning of the quarter in which the transfers occur for any such assets still held at the end of the quarter. Periodically there are transfers between Level 1 and Level 2 for assets held in the Company's Separate Account. During both the three and nine months ended September 30, 2017 and 2016, there were no transfers between Level 1 and Level 2.

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

|                           | As of September 30, 2017 |                                                                         |                         |         |                              |                  |                                              |
|---------------------------|--------------------------|-------------------------------------------------------------------------|-------------------------|---------|------------------------------|------------------|----------------------------------------------|
|                           | Fair Value               | Primary Valuation Techniques                                            | Unobservable Inputs     | Minimum | Maximum                      | Weighted Average | Impact of Increase in Input on Fair Value(1) |
|                           | (in thousands)           |                                                                         |                         |         |                              |                  |                                              |
| Assets:                   |                          |                                                                         |                         |         |                              |                  |                                              |
| Corporate securities(8)   | \$ 14,638                | Discounted cash flow                                                    | Discount rate           | 5.15%   | 7.00%                        | 5.42%            | Decrease                                     |
| Reinsurance recoverables  | \$ 455,196               | Fair values are determined in the same manner as future policy benefits |                         |         |                              |                  |                                              |
| Liabilities:              |                          |                                                                         |                         |         |                              |                  |                                              |
| Future policy benefits(2) | \$ 455,196               | Discounted cash flow                                                    | Lapse rate(3)           | 1%      | 12%                          |                  | Decrease                                     |
|                           |                          |                                                                         | Spread over LIBOR(4)    | 0.13%   | 1.27%                        |                  | Decrease                                     |
|                           |                          |                                                                         | Utilization rate(5)     | 52%     | 97%                          |                  | Increase                                     |
|                           |                          |                                                                         | Withdrawal rate(6)      |         | See table footnote (6) below |                  |                                              |
|                           |                          |                                                                         | Mortality rate (7)      | 0%      | 14%                          |                  | Decrease                                     |
|                           |                          |                                                                         | Equity volatility curve | 13%     | 24%                          |                  | Increase                                     |

|                           | As of December 31, 2016 |                                                                         |                         |                               |         |                  |                                              |
|---------------------------|-------------------------|-------------------------------------------------------------------------|-------------------------|-------------------------------|---------|------------------|----------------------------------------------|
|                           | Fair Value              | Primary Valuation Techniques                                            | Unobservable Inputs     | Minimum                       | Maximum | Weighted Average | Impact of Increase in Input on Fair Value(1) |
|                           | (in thousands)          |                                                                         |                         |                               |         |                  |                                              |
| Assets:                   |                         |                                                                         |                         |                               |         |                  |                                              |
| Corporate securities(8)   | \$ 15,489               | Discounted cash flow                                                    | Discount rate           | 4.54%                         | 6.62%   | 5.25%            | Decrease                                     |
| Reinsurance recoverables  | \$ 434,713              | Fair values are determined in the same manner as future policy benefits |                         |                               |         |                  |                                              |
| Liabilities:              |                         |                                                                         |                         |                               |         |                  |                                              |
| Future policy benefits(2) | \$ 434,713              | Discounted cash flow                                                    | Lapse rate (3)          | 0%                            | 13%     |                  | Decrease                                     |
|                           |                         |                                                                         | Spread over LIBOR(4)    | 0.25%                         | 3.08%   |                  | Decrease                                     |
|                           |                         |                                                                         | Utilization rate (5)    | 52%                           | 96%     |                  | Increase                                     |
|                           |                         |                                                                         | Withdrawal rate         | See table footnote (6) below. |         |                  |                                              |
|                           |                         |                                                                         | Mortality rate (7)      | 0%                            | 14%     |                  | Decrease                                     |
|                           |                         |                                                                         | Equity volatility curve | 16%                           | 25%     |                  | Increase                                     |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

- (1) Conversely, the impact of a decrease in input would have the opposite impact on fair value as that presented in the table.
- (2) Future policy benefits primarily represent general account liabilities for the living benefit guarantees 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.
- (3) 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.
- (4) The spread over London Inter-Bank Offered Rate ("LIBOR") swap curve represents the premium added to the risk-free discount rate (i.e., LIBOR) to reflect our estimates of rates that a market participant would use to value living benefit contracts in both the accumulation and payout phases. This spread includes an estimate of non-performance risk ("NPR"), which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because both funding agreements and living benefit contracts are insurance liabilities and are therefore senior to debt.
- (5) 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.
- (6) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions may vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of September 30, 2017 and December 31, 2016, the minimum withdrawal assumption rate is 78% and the maximum withdrawal assumption rate 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%.
- (7) Range reflects the mortality rate for the vast majority of business with living benefits, with policyholders ranging from 35 to 90 years old. While the majority of living benefits have a minimum age requirement, certain benefits do not have an age restriction. This results in contractholders for certain benefits with mortality rates approaching 0%. Based on historical experience, the Company applies a set of age and duration specific mortality rate adjustments compared to standard industry tables. A mortality improvement assumption is also incorporated into the overall mortality table.
- (8) Includes assets classified as fixed maturities available-for-sale.

**Interrelationships Between Unobservable Inputs** – In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another, or multiple, inputs. For discussion of the relationships between unobservable inputs as well as market factors that may affect the range of inputs used in the valuation of Level 3 assets and liabilities, see Note 9 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**Changes in Level 3 Assets and Liabilities** – The following tables describe changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods. When a determination is made to classify assets and liabilities within Level 3, the determination is based on the significance of the unobservable inputs in the overall fair value measurement. Transfers into Level 3 are generally the result of unobservable inputs utilized within the valuation methodologies or the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate. For further information on valuation processes, see Note 9 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

| Three Months Ended September 30, 2017               |                                      |                                        |                                         |                               |                                             |
|-----------------------------------------------------|--------------------------------------|----------------------------------------|-----------------------------------------|-------------------------------|---------------------------------------------|
| Fixed Maturities Available-for-Sale                 |                                      |                                        |                                         |                               |                                             |
|                                                     | U.S. Corporate Private<br>Securities | Foreign Corporate<br>Public Securities | Foreign Corporate<br>Private Securities | Asset-Backed<br>Securities(4) | Commercial<br>mortgage-backed<br>securities |
|                                                     | (in thousands)                       |                                        |                                         |                               |                                             |
| Fair Value, beginning of period                     | \$ 13,977                            | \$ 0                                   | \$ 726                                  | \$ 8,506                      | \$ 0                                        |
| Total gains (losses) (realized/unrealized):         |                                      |                                        |                                         |                               |                                             |
| Included in earnings:                               |                                      |                                        |                                         |                               |                                             |
| Realized investment gains (losses), net             | 0                                    | 0                                      | (12)                                    | 2                             | 0                                           |
| Asset management fees and other income              | 0                                    | 0                                      | 0                                       | 0                             | 0                                           |
| Included in other comprehensive income (loss)       | (37)                                 | 7                                      | (28)                                    | (11)                          | 0                                           |
| Net investment income                               | 29                                   | 0                                      | 7                                       | 2                             | 0                                           |
| Purchases                                           | 7                                    | 0                                      | 0                                       | 1,500                         | 1,493                                       |
| Sales                                               | 0                                    | 0                                      | 0                                       | 0                             | 0                                           |
| Issuances                                           | 0                                    | 0                                      | 0                                       | 0                             | 0                                           |
| Settlements                                         | (21)                                 | 0                                      | 0                                       | (865)                         | 0                                           |
| Transfers into Level 3(1)                           | 0                                    | 404                                    | 0                                       | 1,507                         | 0                                           |
| Transfers out of Level 3(1)                         | 0                                    | 0                                      | 0                                       | 0                             | 0                                           |
| Other                                               | 0                                    | \$ 0                                   | (10)                                    | 0                             | 0                                           |
| Fair Value, end of period                           | <u>\$ 13,955</u>                     | <u>\$ 411</u>                          | <u>\$ 683</u>                           | <u>\$ 10,641</u>              | <u>\$ 1,493</u>                             |
| Unrealized gains (losses) for assets still held(2): |                                      |                                        |                                         |                               |                                             |
| Included in earnings:                               |                                      |                                        |                                         |                               |                                             |
| Realized investment gains (losses), net             | \$ 0                                 | \$ 0                                   | \$ 0                                    | \$ 0                          | \$ 0                                        |
| Asset management fees and other income              | \$ 0                                 | \$ 0                                   | \$ 0                                    | \$ 0                          | \$ 0                                        |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                 | Three Months Ended September 30, 2017            |                             |                                                 |                           |                                    |
|-----------------------------------------------------------------|--------------------------------------------------|-----------------------------|-------------------------------------------------|---------------------------|------------------------------------|
|                                                                 | Trading Account<br>Assets - Equity<br>Securities | Reinsurance<br>Recoverables | Receivables<br>from<br>Parent and<br>Affiliates | Future Policy<br>Benefits | Policyholders'<br>Account Balances |
|                                                                 | (in thousands)                                   |                             |                                                 |                           |                                    |
| Fair Value, beginning of period                                 | \$ 7,264                                         | \$ 562,818                  | \$ 0                                            | \$ (562,818)              | \$ (3,556)                         |
| Total gains (losses) (realized/unrealized):                     |                                                  |                             |                                                 |                           |                                    |
| Included in earnings:                                           |                                                  |                             |                                                 |                           |                                    |
| Realized investment gains (losses), net(5)                      | 0                                                | (128,465)                   | 0                                               | 128,465                   | (672)                              |
| Asset management fees and other income                          | (28)                                             | 0                           | 0                                               | 0                         | 0                                  |
| Interest credited to policyholders' account balances            | 0                                                | 0                           | 0                                               | 0                         | 2,291                              |
| Included in other comprehensive income (loss)                   | 0                                                | 0                           | 0                                               | 0                         | 0                                  |
| Net investment income                                           | 0                                                | 0                           | 0                                               | 0                         | 0                                  |
| Purchases                                                       | 0                                                | 20,843                      | 0                                               | 0                         | 0                                  |
| Sales                                                           | 0                                                | 0                           | 0                                               | 0                         | 0                                  |
| Issuances                                                       | 0                                                | 0                           | 0                                               | (20,843)                  | 0                                  |
| Settlements                                                     | 0                                                | 0                           | 0                                               | 0                         | (2,280)                            |
| Transfers into Level 3(1)                                       | 0                                                | 0                           | 0                                               | 0                         | 0                                  |
| Transfers out of Level 3(1)                                     | 0                                                | 0                           | 0                                               | 0                         | 0                                  |
| Other                                                           | 10                                               | 0                           | 0                                               | 0                         | 0                                  |
| Fair Value, end of period                                       | \$ 7,246                                         | \$ 455,196                  | \$ 0                                            | \$ (455,196)              | \$ (4,217)                         |
| Unrealized gains (losses) for assets/liabilities still held(2): |                                                  |                             |                                                 |                           |                                    |
| Included in earnings:                                           |                                                  |                             |                                                 |                           |                                    |
| Realized investment gains (losses), net                         | \$ 0                                             | \$ (124,390)                | \$ 0                                            | \$ 124,390                | \$ (672)                           |
| Asset management fees and other income                          | \$ (28)                                          | \$ 0                        | \$ 0                                            | \$ 0                      | \$ 0                               |
| Interest credited to policyholders' account balances            | \$ 0                                             | \$ 0                        | \$ 0                                            | \$ 0                      | \$ 885                             |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| Nine Months Ended September 30, 2017                |                                      |                                        |                                         |                               |                                             |
|-----------------------------------------------------|--------------------------------------|----------------------------------------|-----------------------------------------|-------------------------------|---------------------------------------------|
|                                                     | Fixed Maturities Available-for-Sale  |                                        |                                         |                               |                                             |
|                                                     | U.S. Corporate<br>Private Securities | Foreign Corporate<br>Public Securities | Foreign Corporate<br>Private Securities | Asset-Backed<br>Securities(4) | Commercial<br>mortgage-backed<br>securities |
|                                                     | (in thousands)                       |                                        |                                         |                               |                                             |
| Fair Value, beginning of period                     | \$ 12,967                            | \$ 0                                   | \$ 2,522                                | \$ 2,328                      | \$ 0                                        |
| Total gains (losses) (realized/unrealized):         |                                      |                                        |                                         |                               |                                             |
| Included in earnings:                               |                                      |                                        |                                         |                               |                                             |
| Realized investment gains (losses), net             | 0                                    | 0                                      | (74)                                    | 14                            | 0                                           |
| Asset management fees and other income              | 0                                    | 0                                      | 0                                       | 0                             | 0                                           |
| Included in other comprehensive income (loss)       | 303                                  | 7                                      | 28                                      | (48)                          | 0                                           |
| Net investment income                               | 94                                   | 0                                      | 7                                       | 8                             | 0                                           |
| Purchases                                           | 1,422                                | 0                                      | 0                                       | 1,500                         | 1,493                                       |
| Sales                                               | (767)                                | 0                                      | 0                                       | 0                             | 0                                           |
| Issuances                                           | 0                                    | 0                                      | 0                                       | 0                             | 0                                           |
| Settlements                                         | (64)                                 | 0                                      | 0                                       | (6,816)                       | 0                                           |
| Transfers into Level 3(1)                           | 0                                    | 404                                    | 0                                       | 15,153                        | 0                                           |
| Transfers out of Level 3(1)                         | 0                                    | 0                                      | (1,790)                                 | (1,498)                       | 0                                           |
| Other                                               | 0                                    | \$ 0                                   | (10)                                    | 0                             | 0                                           |
| Fair Value, end of period                           | <u>\$ 13,955</u>                     | <u>\$ 411</u>                          | <u>\$ 683</u>                           | <u>\$ 10,641</u>              | <u>\$ 1,493</u>                             |
| Unrealized gains (losses) for assets still held(2): |                                      |                                        |                                         |                               |                                             |
| Included in earnings:                               |                                      |                                        |                                         |                               |                                             |
| Realized investment gains (losses), net             | \$ 0                                 | \$ 0                                   | \$ (62)                                 | \$ 0                          | \$ 0                                        |
| Asset management fees and other income              | \$ 0                                 | \$ 0                                   | \$ 0                                    | \$ 0                          | \$ 0                                        |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                 | Nine Months Ended September 30, 2017             |                             |                                                 |                           |                                    |
|-----------------------------------------------------------------|--------------------------------------------------|-----------------------------|-------------------------------------------------|---------------------------|------------------------------------|
|                                                                 | Trading Account<br>Assets - Equity<br>Securities | Reinsurance<br>Recoverables | Receivables<br>from<br>Parent and<br>Affiliates | Future Policy<br>Benefits | Policyholders'<br>Account Balances |
|                                                                 | (in thousands)                                   |                             |                                                 |                           |                                    |
| Fair Value, beginning of period                                 | \$ 6,721                                         | \$ 434,713                  | \$ 5,993                                        | \$ (434,713)              | \$ (2,298)                         |
| Total gains (losses) (realized/unrealized):                     |                                                  |                             |                                                 |                           |                                    |
| Included in earnings:                                           |                                                  |                             |                                                 |                           |                                    |
| Realized investment gains (losses), net(5)                      | 0                                                | (40,796)                    | 0                                               | 40,796                    | (1,967)                            |
| Asset management fees and other income                          | 515                                              | 0                           | 0                                               | 0                         | 0                                  |
| Interest credited to policyholders' account balances            | 0                                                | 0                           | 0                                               | 0                         | 2,291                              |
| Included in other comprehensive income (loss)                   | 0                                                | 0                           | 0                                               | 0                         | 0                                  |
| Net investment income                                           | 0                                                | 0                           | 0                                               | 0                         | 0                                  |
| Purchases                                                       | 0                                                | 61,279                      | 0                                               | 0                         | 0                                  |
| Sales                                                           | 0                                                | 0                           | 0                                               | 0                         | 0                                  |
| Issuances                                                       | 0                                                | 0                           | 0                                               | (61,279)                  | 0                                  |
| Settlements                                                     | 0                                                | 0                           | 0                                               | 0                         | (2,243)                            |
| Transfers into Level 3(1)                                       | 0                                                | 0                           | 0                                               | 0                         | 0                                  |
| Transfers out of Level 3(1)                                     | 0                                                | 0                           | (5,993)                                         | 0                         | 0                                  |
| Other                                                           | 10                                               | 0                           | 0                                               | 0                         | 0                                  |
| Fair Value, end of period                                       | <u>\$ 7,246</u>                                  | <u>\$ 455,196</u>           | <u>\$ 0</u>                                     | <u>\$ (455,196)</u>       | <u>\$ (4,217)</u>                  |
| Unrealized gains (losses) for assets/liabilities still held(2): |                                                  |                             |                                                 |                           |                                    |
| Included in earnings:                                           |                                                  |                             |                                                 |                           |                                    |
| Realized investment gains (losses), net                         | \$ 0                                             | \$ (31,015)                 | \$ 0                                            | \$ 31,015                 | \$ (1,967)                         |
| Asset management fees and other income                          | \$ 515                                           | \$ 0                        | \$ 0                                            | \$ 0                      | \$ 0                               |
| Interest credited to policyholders' account balances            | \$ 0                                             | \$ 0                        | \$ 0                                            | \$ 0                      | \$ 2,291                           |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                     | Three Months Ended September 30, 2016 |                              |                            |                                            |
|-----------------------------------------------------|---------------------------------------|------------------------------|----------------------------|--------------------------------------------|
|                                                     | Fixed Maturities Available-For-Sale   |                              |                            |                                            |
|                                                     | U.S. Corporate Securities             | Private Corporate Securities | Asset-Backed Securities(4) | Trading Account Assets - Equity Securities |
|                                                     | (in thousands)                        |                              |                            |                                            |
| Fair Value, beginning of period                     | \$ 9,756                              | \$ 2,461                     | \$ 10,409                  | \$ 6,897                                   |
| Total gains (losses) (realized/unrealized):         |                                       |                              |                            |                                            |
| Included in earnings:                               |                                       |                              |                            |                                            |
| Realized investment gains (losses), net             | 13                                    | 0                            | (2)                        | 0                                          |
| Asset management fees and other income              | 0                                     | 0                            | 0                          | 521                                        |
| Included in other comprehensive income (loss)       | 237                                   | 51                           | 16                         | 0                                          |
| Net investment income                               | 6                                     | 0                            | 2                          | 0                                          |
| Purchases                                           | 329                                   | 0                            | 2,094                      | 0                                          |
| Sales                                               | 0                                     | 0                            | (3,344)                    | 0                                          |
| Issuances                                           | 0                                     | 0                            | 0                          | 0                                          |
| Settlements                                         | (298)                                 | 0                            | 0                          | 0                                          |
| Transfers into Level 3(1)                           | 0                                     | 0                            | 0                          | 0                                          |
| Transfers out of Level 3(1)                         | 0                                     | 0                            | (6,049)                    | 0                                          |
| Other                                               | 0                                     | 0                            | 0                          | 0                                          |
| Fair Value, end of period                           | \$ 10,043                             | \$ 2,512                     | \$ 3,126                   | \$ 7,418                                   |
| Unrealized gains (losses) for assets still held(2): |                                       |                              |                            |                                            |
| Included in earnings:                               |                                       |                              |                            |                                            |
| Realized investment gains (losses), net             | \$ 0                                  | \$ 0                         | \$ 0                       | \$ 0                                       |
| Asset management fees and other income              | \$ 0                                  | \$ 0                         | \$ 0                       | \$ 521                                     |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                 | Three Months Ended September 30, 2016 |                                        |                        |                                 |
|-----------------------------------------------------------------|---------------------------------------|----------------------------------------|------------------------|---------------------------------|
|                                                                 | Reinsurance Recoverables              | Receivables from Parent and Affiliates | Future Policy Benefits | Policyholders' Account Balances |
|                                                                 | (in thousands)                        |                                        |                        |                                 |
| Fair Value, beginning of period                                 | \$ 757,897                            | \$ 555                                 | \$ (757,897)           | \$ (606)                        |
| Total gains (losses) (realized/unrealized):                     |                                       |                                        |                        |                                 |
| Included in earnings:                                           |                                       |                                        |                        |                                 |
| Realized investment gains (losses), net(5)                      | (33,846)                              | 0                                      | 33,846                 | (2,009)                         |
| Asset management fees and other income                          | 0                                     | 0                                      | 0                      | 0                               |
| Included in other comprehensive income (loss)                   | 0                                     | 4                                      | 0                      | 0                               |
| Net investment income                                           | 0                                     | 0                                      | 0                      | 0                               |
| Purchases                                                       | 19,282                                | 0                                      | 0                      | 0                               |
| Sales                                                           | 0                                     | 0                                      | 0                      | 0                               |
| Issuances                                                       | 0                                     | 0                                      | (19,282)               | 0                               |
| Settlements                                                     | 0                                     | 0                                      | 0                      | 785                             |
| Transfers into Level 3(1)                                       | 0                                     | 0                                      | 0                      | 0                               |
| Transfers out of Level 3(1)                                     | 0                                     | 0                                      | 0                      | 0                               |
| Other                                                           | 0                                     | 0                                      | 0                      | 0                               |
| Fair Value, end of period                                       | <u>\$ 743,333</u>                     | <u>\$ 559</u>                          | <u>\$ (743,333)</u>    | <u>\$ (1,830)</u>               |
| Unrealized gains (losses) for assets/liabilities still held(2): |                                       |                                        |                        |                                 |
| Included in earnings:                                           |                                       |                                        |                        |                                 |
| Realized investment gains (losses), net                         | \$ 25,565                             | \$ 0                                   | \$ 31,605              | \$ (1,830)                      |
| Asset management fees and other income                          | \$ 0                                  | \$ 0                                   | \$ 0                   | \$ 0                            |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                     | Nine Months Ended September 30, 2016 |                                         |                               |                                                  |
|-----------------------------------------------------|--------------------------------------|-----------------------------------------|-------------------------------|--------------------------------------------------|
|                                                     | Fixed Maturities Available-For-Sale  |                                         |                               | Trading Account<br>Assets - Equity<br>Securities |
|                                                     | U.S. Corporate<br>Private Securities | Foreign Corporate<br>Private Securities | Asset-Backed<br>Securities(4) |                                                  |
|                                                     | (in thousands)                       |                                         |                               |                                                  |
| Fair Value, beginning of period                     | \$ 9,781                             | \$ 8,028                                | \$ 25,146                     | \$ 7,050                                         |
| Total gains (losses) (realized/unrealized):         |                                      |                                         |                               |                                                  |
| Included in earnings:                               |                                      |                                         |                               |                                                  |
| Realized investment gains (losses), net             | 13                                   | 0                                       | (2)                           | 0                                                |
| Asset management fees and other income              | 0                                    | 0                                       | 0                             | 194                                              |
| Included in other comprehensive income (loss)       | 377                                  | 42                                      | 10                            | 0                                                |
| Net investment income                               | 11                                   | 0                                       | 11                            | 0                                                |
| Purchases                                           | 458                                  | 0                                       | 2,593                         | 0                                                |
| Sales                                               | (86)                                 | (1,471)                                 | (6,037)                       | (1,440)                                          |
| Issuances                                           | 0                                    | 0                                       | 0                             | 0                                                |
| Settlements                                         | (511)                                | (5,129)                                 | (28)                          | 0                                                |
| Transfers into Level 3(1)                           | 0                                    | 1,042                                   | 1,941                         | 0                                                |
| Transfers out of Level 3(1)                         | 0                                    | 0                                       | (20,508)                      | 0                                                |
| Other(3)                                            | 0                                    | 0                                       | 0                             | 1,614                                            |
| Fair Value, end of period                           | <u>\$ 10,043</u>                     | <u>\$ 2,512</u>                         | <u>\$ 3,126</u>               | <u>\$ 7,418</u>                                  |
| Unrealized gains (losses) for assets still held(2): |                                      |                                         |                               |                                                  |
| Included in earnings:                               |                                      |                                         |                               |                                                  |
| Realized investment gains (losses), net             | \$ 0                                 | \$ 0                                    | \$ 0                          | \$ 0                                             |
| Asset management fees and other income              | \$ 0                                 | \$ 0                                    | \$ 0                          | \$ 194                                           |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                 | Nine Months Ended September 30, 2016 |                                        |                        |                                 |
|-----------------------------------------------------------------|--------------------------------------|----------------------------------------|------------------------|---------------------------------|
|                                                                 | Reinsurance Recoverables             | Receivables from Parent and Affiliates | Future Policy Benefits | Policyholders' Account Balances |
|                                                                 | (in thousands)                       |                                        |                        |                                 |
| Fair Value, beginning of period                                 | \$ 356,337                           | \$ 3,511                               | \$ (449,073)           | \$ (606)                        |
| Total gains (losses) (realized/unrealized):                     |                                      |                                        |                        |                                 |
| Included in earnings:                                           |                                      |                                        |                        |                                 |
| Realized investment gains (losses), net(5)                      | 335,914                              | (6)                                    | (239,426)              | (2,009)                         |
| Asset management fees and other income                          | 0                                    | 0                                      | 0                      | 0                               |
| Included in other comprehensive income (loss)                   | 0                                    | 20                                     | 0                      | 0                               |
| Net investment income                                           | 0                                    | 0                                      | 0                      | 0                               |
| Purchases                                                       | 51,082                               | 0                                      | 0                      | 0                               |
| Sales                                                           | 0                                    | (994)                                  | 0                      | 0                               |
| Issuances                                                       | 0                                    | 0                                      | (54,834)               | 0                               |
| Settlements                                                     | 0                                    | 0                                      | 0                      | 785                             |
| Transfers into Level 3(1)                                       | 0                                    | 0                                      | 0                      | 0                               |
| Transfers out of Level 3(1)                                     | 0                                    | (1,972)                                | 0                      | 0                               |
| Other                                                           | 0                                    | 0                                      | 0                      | 0                               |
| Fair Value, end of period                                       | <u>\$ 743,333</u>                    | <u>\$ 559</u>                          | <u>\$ (743,333)</u>    | <u>\$ (1,830)</u>               |
| Unrealized gains (losses) for assets/liabilities still held(2): |                                      |                                        |                        |                                 |
| Included in earnings:                                           |                                      |                                        |                        |                                 |
| Realized investment gains (losses), net                         | \$ 723,728                           | \$ 0                                   | \$ (245,642)           | \$ (2,009)                      |
| Asset management fees and other income                          | \$ 0                                 | \$ 0                                   | \$ 0                   | \$ 0                            |

(1) Transfers into or out of any level are generally reported at the value as of the beginning of the quarter in which the transfer occurs for any such assets still held at the end of the quarter.

(2) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.

(3) Other primarily represents reclassifications of certain assets and liabilities between reporting categories.

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

(5) Realized investment gains (losses) on Future Policy Benefits and Reinsurance Recoverables primarily represents the change in the fair value of the Company's living benefit guarantees on certain of its variable annuity contracts. Refer to Note 1 for impacts to Realized investment gains (losses) related to the Variable Annuities Recapture for the three and nine months ended September 30, 2016.

**Fair Value of Financial Instruments**

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. The financial instruments presented below are reported at carrying value on the Company's Unaudited Interim Consolidated Statements of Financial Position. In some cases, as described below, the carrying amount equals or approximates fair value. For additional information regarding the methods and significant assumptions used to estimate their fair value, see Note 9 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| September 30, 2017(1)                                  |                 |                   |                   |                   |                    |
|--------------------------------------------------------|-----------------|-------------------|-------------------|-------------------|--------------------|
|                                                        | Fair Value      |                   |                   |                   | Carrying Amount(2) |
|                                                        | Level 1         | Level 2           | Level 3           | Total             | Total              |
| (in thousands)                                         |                 |                   |                   |                   |                    |
| <b>Assets:</b>                                         |                 |                   |                   |                   |                    |
| Commercial mortgage and other loans                    | \$ 0            | \$ 0              | \$ 128,908        | \$ 128,908        | \$ 124,536         |
| Policy loans                                           | 0               | 0                 | 190,753           | 190,753           | 190,753            |
| Cash and cash equivalents                              | 4,818           | 0                 | 38,000            | 42,818            | 42,818             |
| Accrued investment income                              | 0               | 16,563            | 0                 | 16,563            | 16,563             |
| Receivables from parent and affiliates                 | 0               | 33,157            | 0                 | 33,157            | 33,157             |
| Other assets                                           | 0               | 4,667             | 0                 | 4,667             | 4,667              |
| <b>Total assets</b>                                    | <b>\$ 4,818</b> | <b>\$ 54,387</b>  | <b>\$ 357,661</b> | <b>\$ 416,866</b> | <b>\$ 412,494</b>  |
| <b>Liabilities:</b>                                    |                 |                   |                   |                   |                    |
| Policyholders' account balances - investment contracts | \$ 0            | \$ 176,337        | \$ 41,453         | \$ 217,790        | \$ 218,051         |
| Securities sold under agreements to repurchase         | 0               | 0                 | 0                 | 0                 | 0                  |
| Cash collateral for loaned securities                  | 0               | 10,275            | 0                 | 10,275            | 10,275             |
| Short-term debt to affiliates                          | 0               | 0                 | 0                 | 0                 | 0                  |
| Payables to parent and affiliates                      | 0               | 17,169            | 0                 | 17,169            | 17,169             |
| Other liabilities                                      | 0               | 29,090            | 0                 | 29,090            | 29,090             |
| <b>Total liabilities</b>                               | <b>\$ 0</b>     | <b>\$ 232,871</b> | <b>\$ 41,453</b>  | <b>\$ 274,324</b> | <b>\$ 274,585</b>  |

  

| December 31, 2016(1)                                   |                 |                   |                   |                   |                    |
|--------------------------------------------------------|-----------------|-------------------|-------------------|-------------------|--------------------|
|                                                        | Fair Value      |                   |                   |                   | Carrying Amount(2) |
|                                                        | Level 1         | Level 2           | Level 3           | Total             | Total              |
| (in thousands)                                         |                 |                   |                   |                   |                    |
| <b>Assets:</b>                                         |                 |                   |                   |                   |                    |
| Commercial mortgage and other loans                    | \$ 0            | \$ 0              | \$ 165,175        | \$ 165,175        | \$ 160,939         |
| Policy loans                                           | 0               | 0                 | 187,242           | 187,242           | 187,242            |
| Cash and cash equivalents                              | 4,340           | 49,114            | 0                 | 53,454            | 53,454             |
| Accrued investment income                              | 0               | 15,829            | 0                 | 15,829            | 15,829             |
| Receivables from parent and affiliates                 | 0               | 23,591            | 0                 | 23,591            | 23,591             |
| Other assets                                           | 0               | 4,255             | 0                 | 4,255             | 4,255              |
| <b>Total assets</b>                                    | <b>\$ 4,340</b> | <b>\$ 92,789</b>  | <b>\$ 352,417</b> | <b>\$ 449,546</b> | <b>\$ 445,310</b>  |
| <b>Liabilities:</b>                                    |                 |                   |                   |                   |                    |
| Policyholders' account balances - investment contracts | \$ 0            | \$ 164,174        | \$ 42,762         | \$ 206,936        | \$ 207,331         |
| Securities sold under agreements to repurchase         | 0               | 0                 | 0                 | 0                 | 0                  |
| Cash collateral for loaned securities                  | 0               | 15,054            | 0                 | 15,054            | 15,054             |
| Short-term debt to affiliates                          | 0               | 0                 | 0                 | 0                 | 0                  |
| Payables to parent and affiliates                      | 0               | 8,603             | 0                 | 8,603             | 8,603              |
| Other liabilities                                      | 0               | 31,079            | 0                 | 31,079            | 31,079             |
| <b>Total liabilities</b>                               | <b>\$ 0</b>     | <b>\$ 218,910</b> | <b>\$ 42,762</b>  | <b>\$ 261,672</b> | <b>\$ 262,067</b>  |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

- (1) Other long-term investments excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value per share (or its equivalent). At September 30, 2017 and December 31, 2016, the fair values of these cost method investments were \$2.2 million and \$1.8 million, respectively. The carrying value of these investments were \$2.0 million and \$1.7 million as of September 30, 2017 and December 31, 2016, respectively.
- (2) Carrying values presented herein differ from those in the Company's Unaudited Interim Consolidated Statements of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments.

**5. DERIVATIVE INSTRUMENTS**

*Types of Derivative Instruments and Derivative Strategies*

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

- Interest rate contracts: swaps, options, swaptions, caps and floors
- Equity contracts: options and total return swaps
- Foreign exchange contracts: futures, options, forwards and swaps
- Credit contracts: single and index reference credit default swaps
- Other contracts: embedded derivatives

For detailed information on these contracts and the related strategies, see Note 10 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

*Primary Risks Managed by Derivatives*

The table below provides a summary of the gross notional amount and fair value of derivative contracts by the primary underlying, excluding embedded derivatives which are recorded with the associated host and the related reinsurance recoverables. Many derivative instruments contain multiple underlyings. The fair value amounts below represent the gross fair value of derivative contracts prior to taking into account the netting effects of master netting agreements, cash collateral held with the same counterparty, and non-performance risk.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| Primary Underlying                                          | September 30, 2017 |                  |             | December 31, 2016 |                  |             |
|-------------------------------------------------------------|--------------------|------------------|-------------|-------------------|------------------|-------------|
|                                                             | Notional           | Gross Fair Value |             | Notional          | Gross Fair Value |             |
|                                                             |                    | Assets           | Liabilities |                   | Assets           | Liabilities |
|                                                             |                    | (in thousands)   |             |                   |                  |             |
| Derivatives Designated as Hedge Accounting Instruments:     |                    |                  |             |                   |                  |             |
| Currency/Interest Rate                                      |                    |                  |             |                   |                  |             |
| Foreign Currency Swaps                                      | \$ 105,248         | \$ 1,887         | \$ (4,195)  | \$ 59,397         | \$ 5,342         | \$ 0        |
| Total Qualifying Hedges                                     | \$ 105,248         | \$ 1,887         | \$ (4,195)  | \$ 59,397         | \$ 5,342         | \$ 0        |
| Derivatives Not Qualifying as Hedge Accounting Instruments: |                    |                  |             |                   |                  |             |
| Interest Rate                                               |                    |                  |             |                   |                  |             |
| Interest Rate Swaps                                         | \$ 59,075          | \$ 4,100         | \$ 0        | \$ 59,075         | \$ 4,983         | \$ 0        |
| Credit                                                      |                    |                  |             |                   |                  |             |
| Credit Default Swaps                                        | 1,594              | 0                | (115)       | 3,000             | 0                | (281)       |
| Currency/Interest Rate                                      |                    |                  |             |                   |                  |             |
| Foreign Currency Swaps                                      | 22,237             | 1,900            | (265)       | 13,403            | 2,885            | 0           |
| Foreign Currency                                            |                    |                  |             |                   |                  |             |
| Foreign Currency Forwards                                   | 1,869              | 0                | (49)        | 0                 | 0                | 0           |
| Equity                                                      |                    |                  |             |                   |                  |             |
| Equity Options                                              | 131,700            | 5,858            | (1,730)     | 75,751            | 3,400            | (1,135)     |
| Total Non-Qualifying Hedges                                 | \$ 216,475         | \$ 11,858        | \$ (2,159)  | \$ 151,229        | \$ 11,268        | \$ (1,416)  |
| Total Derivatives(1)                                        | \$ 321,723         | \$ 13,745        | \$ (6,354)  | \$ 210,626        | \$ 16,610        | \$ (1,416)  |

(1) Excludes embedded derivatives and the related reinsurance recoverables which contain multiple underlyings.

The fair value of the embedded derivatives, included in "Future policy benefits," was a net liability of \$455 million and \$435 million as of September 30, 2017 and December 31, 2016, respectively. The fair value of the related reinsurance recoverables, included in "Reinsurance recoverables," was an asset of \$455 million and \$435 million as of September 30, 2017 and December 31, 2016, respectively. See Note 7 for additional information on these reinsurance agreements.

The fair value of the embedded derivatives, included in "Policyholders' account balances," was a net liability of \$4 million and \$2 million as of September 30, 2017 and December 31, 2016, respectively. There was no related reinsurance recoverable.

**Offsetting Assets and Liabilities**

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

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| September 30, 2017                              |                                                               |                                                                                            |                                                                                          |                                            |               |
|-------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|--------------------------------------------|---------------|
|                                                 | Gross<br>Amounts of<br>Recognized<br>Financial<br>Instruments | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Statement of<br>Financial<br>Position | Net Amounts<br>Presented in<br>the Consolidated<br>Statement<br>of Financial<br>Position | Financial<br>Instruments/<br>Collateral(1) | Net<br>Amount |
| (in thousands)                                  |                                                               |                                                                                            |                                                                                          |                                            |               |
| <b>Offsetting of Financial Assets:</b>          |                                                               |                                                                                            |                                                                                          |                                            |               |
| Derivatives (1)                                 | \$ 13,745                                                     | \$ (6,473)                                                                                 | \$ 7,272                                                                                 | \$ (7,272)                                 | \$ 0          |
| Securities purchased under agreements to resell | 38,000                                                        | 0                                                                                          | 38,000                                                                                   | (38,000)                                   | 0             |
| Total Assets                                    | <u>\$ 51,745</u>                                              | <u>\$ (6,473)</u>                                                                          | <u>\$ 45,272</u>                                                                         | <u>\$ (45,272)</u>                         | <u>\$ 0</u>   |
| <b>Offsetting of Financial Liabilities:</b>     |                                                               |                                                                                            |                                                                                          |                                            |               |
| Derivatives (1)                                 | <u>\$ 6,354</u>                                               | <u>\$ (6,354)</u>                                                                          | <u>\$ 0</u>                                                                              | <u>\$ 0</u>                                | <u>\$ 0</u>   |
| December 31, 2016                               |                                                               |                                                                                            |                                                                                          |                                            |               |
|                                                 | Gross<br>Amounts of<br>Recognized<br>Financial<br>Instruments | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Statement of<br>Financial<br>Position | Net Amounts<br>Presented in<br>the Consolidated<br>Statement<br>of Financial<br>Position | Financial<br>Instruments/<br>Collateral(1) | Net<br>Amount |
| (in thousands)                                  |                                                               |                                                                                            |                                                                                          |                                            |               |
| <b>Offsetting of Financial Assets:</b>          |                                                               |                                                                                            |                                                                                          |                                            |               |
| Derivatives (1)                                 | \$ 16,610                                                     | \$ (1,580)                                                                                 | \$ 15,030                                                                                | \$ (15,030)                                | \$ 0          |
| Securities purchased under agreements to resell | 49,114                                                        | 0                                                                                          | 49,114                                                                                   | (49,114)                                   | 0             |
| Total Assets                                    | <u>\$ 65,724</u>                                              | <u>\$ (1,580)</u>                                                                          | <u>\$ 64,144</u>                                                                         | <u>\$ (64,144)</u>                         | <u>\$ 0</u>   |
| <b>Offsetting of Financial Liabilities:</b>     |                                                               |                                                                                            |                                                                                          |                                            |               |
| Derivatives (1)                                 | <u>\$ 1,416</u>                                               | <u>\$ (1,416)</u>                                                                          | <u>\$ 0</u>                                                                              | <u>\$ 0</u>                                | <u>\$ 0</u>   |

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

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see “Credit Risk” below and Note 9. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company’s accounting policy for securities repurchase and resale agreements, see Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

**Cash Flow Hedges**

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

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

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

| Three Months Ended September 30, 2017                              |                                          |                             |                 |                   |
|--------------------------------------------------------------------|------------------------------------------|-----------------------------|-----------------|-------------------|
|                                                                    | Realized<br>Investment<br>Gains (Losses) | Net<br>Investment<br>Income | Other Income    | AOCI (1)          |
| (in thousands)                                                     |                                          |                             |                 |                   |
| <b>Derivatives Designated as Hedge Accounting Instruments:</b>     |                                          |                             |                 |                   |
| <b>Cash flow hedges</b>                                            |                                          |                             |                 |                   |
| Currency/Interest Rate                                             | \$ 0                                     | \$ 259                      | \$ (356)        | \$ (3,756)        |
| Total cash flow hedges                                             | 0                                        | 259                         | (356)           | (3,756)           |
| <b>Derivatives Not Qualifying as Hedge Accounting Instruments:</b> |                                          |                             |                 |                   |
| Interest Rate                                                      | 40                                       | 0                           | 0               | 0                 |
| Currency                                                           | (49)                                     | 0                           | 0               | 0                 |
| Currency/Interest Rate                                             | (546)                                    | 0                           | (6)             | 0                 |
| Credit                                                             | (7)                                      | 0                           | 0               | 0                 |
| Equity                                                             | 828                                      | 0                           | 0               | 0                 |
| Embedded Derivatives                                               | (3,440)                                  | 0                           | 0               | 0                 |
| Total non-qualifying hedges                                        | (3,174)                                  | 0                           | (6)             | 0                 |
| <b>Total</b>                                                       | <b>\$ (3,174)</b>                        | <b>\$ 259</b>               | <b>\$ (362)</b> | <b>\$ (3,756)</b> |

| Nine Months Ended September 30, 2017                               |                                          |                             |                 |                   |
|--------------------------------------------------------------------|------------------------------------------|-----------------------------|-----------------|-------------------|
|                                                                    | Realized<br>Investment<br>Gains (Losses) | Net<br>Investment<br>Income | Other Income    | AOCI (1)          |
| (in thousands)                                                     |                                          |                             |                 |                   |
| <b>Derivatives Designated as Hedge Accounting Instruments:</b>     |                                          |                             |                 |                   |
| <b>Cash flow hedges</b>                                            |                                          |                             |                 |                   |
| Currency/Interest Rate                                             | \$ 0                                     | \$ 515                      | \$ (777)        | \$ (6,727)        |
| Total cash flow hedges                                             | 0                                        | 515                         | (777)           | (6,727)           |
| <b>Derivatives Not Qualifying as Hedge Accounting Instruments:</b> |                                          |                             |                 |                   |
| Interest Rate                                                      | 471                                      | 0                           | 0               | 0                 |
| Currency                                                           | (92)                                     | 0                           | 0               | 0                 |
| Currency/Interest Rate                                             | (1,042)                                  | 0                           | (15)            | 0                 |
| Credit                                                             | (44)                                     | 0                           | 0               | 0                 |
| Equity                                                             | 2,074                                    | 0                           | 0               | 0                 |
| Embedded Derivatives                                               | (10,416)                                 | 0                           | 0               | 0                 |
| Total non-qualifying hedges                                        | (9,049)                                  | 0                           | (15)            | 0                 |
| <b>Total</b>                                                       | <b>\$ (9,049)</b>                        | <b>\$ 515</b>               | <b>\$ (792)</b> | <b>\$ (6,727)</b> |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                             | Three Months Ended September 30, 2016    |                             |              |            |
|-------------------------------------------------------------|------------------------------------------|-----------------------------|--------------|------------|
|                                                             | Realized<br>Investment<br>Gains (Losses) | Net<br>Investment<br>Income | Other Income | AOCI (1)   |
|                                                             | (in thousands)                           |                             |              |            |
| Derivatives Designated as Hedge Accounting Instruments:     |                                          |                             |              |            |
| Cash flow hedges                                            |                                          |                             |              |            |
| Currency/Interest Rate                                      | \$ 0                                     | \$ 32                       | \$ 89        | \$ (1,106) |
| Total cash flow hedges                                      | 0                                        | 32                          | 89           | (1,106)    |
| Derivatives Not Qualifying as Hedge Accounting Instruments: |                                          |                             |              |            |
| Interest Rate                                               | (340)                                    | 0                           | 0            | 0          |
| Currency                                                    | 33                                       | 0                           | 0            | 0          |
| Currency/Interest Rate                                      | 448                                      | 0                           | 4            | 0          |
| Credit                                                      | (157)                                    | 0                           | 0            | 0          |
| Equity                                                      | 356                                      | 0                           | 0            | 0          |
| Embedded Derivatives                                        | (3,735)                                  | 0                           | 0            | 0          |
| Total non-qualifying hedges                                 | (3,395)                                  | 0                           | 4            | 0          |
| Total                                                       | \$ (3,395)                               | \$ 32                       | \$ 93        | \$ (1,106) |

|                                                             | Nine Months Ended September 30, 2016     |                             |              |            |
|-------------------------------------------------------------|------------------------------------------|-----------------------------|--------------|------------|
|                                                             | Realized<br>Investment<br>Gains (Losses) | Net<br>Investment<br>Income | Other Income | AOCI (1)   |
|                                                             | (in thousands)                           |                             |              |            |
| Derivatives Designated as Hedge Accounting Instruments:     |                                          |                             |              |            |
| Cash flow hedges                                            |                                          |                             |              |            |
| Currency/Interest Rate                                      | \$ 0                                     | \$ 183                      | \$ 380       | \$ (2,406) |
| Total cash flow hedges                                      | 0                                        | 183                         | 380          | (2,406)    |
| Derivatives Not Qualifying as Hedge Accounting Instruments: |                                          |                             |              |            |
| Interest Rate                                               | 2,894                                    | 0                           | 0            | 0          |
| Currency                                                    | 191                                      | 0                           | 0            | 0          |
| Currency/Interest Rate                                      | 1,448                                    | 0                           | 4            | 0          |
| Credit                                                      | (524)                                    | 0                           | 0            | 0          |
| Equity                                                      | 407                                      | 0                           | 0            | 0          |
| Embedded Derivatives                                        | 89,615                                   | 0                           | 0            | 0          |
| Total non-qualifying hedges                                 | 94,031                                   | 0                           | 4            | 0          |
| Total                                                       | \$ 94,031                                | \$ 183                      | \$ 384       | \$ (2,406) |

(1) Amounts deferred in AOCI.

For both the three and nine months ended September 30, 2017 and 2016, the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company's results of operations. Also, there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

Presented below is a rollforward of current period cash flow hedges in “Accumulated other comprehensive income (loss)” before taxes:

|                                                                                      | (in thousands) |
|--------------------------------------------------------------------------------------|----------------|
| Balance, December 31, 2016                                                           | \$ 4,973       |
| Net deferred gains (losses) on cash flow hedges from January 1 to September 30, 2017 | (7,002)        |
| Amounts reclassified into current period earnings                                    | 275            |
| Balance, September 30, 2017                                                          | \$ (1,754)     |

Using September 30, 2017 values, it is estimated that a pre-tax gain of \$1.1 million will be reclassified from AOCI to earnings during the subsequent twelve months ending September 30, 2018, offset by amounts pertaining to the hedged items. As of September 30, 2017, the Company did not have any qualifying cash flow hedges of forecasted transactions other than those related to the variability of the payment or receipt of interest or foreign currency amounts on existing financial instruments. The maximum length of time for which these variable cash flows are hedged is 29 years. Income amounts deferred in AOCI as a result of cash flow hedges are included in “Net unrealized investment gains (losses)” within OCI in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

***Credit Derivatives***

As of September 30, 2017 and December 31, 2016, the Company has not written credit protection.

The Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company’s investment portfolio. The Company has outstanding notional amounts of \$2 million and \$3 million reported at fair value as a liability of \$0.1 million and \$0.3 million as of September 30, 2017 and December 31, 2016, respectively.

***Credit Risk***

The Company is exposed to credit-related losses in the event of non-performance by counterparty to financial derivative transactions. The Company has credit risk exposure to an affiliate, Prudential Global Funding, LLC (“PGF”), related to its OTC derivative transactions. PGF manages credit risk with external counterparties by entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties, and by obtaining collateral, such as cash and securities, when appropriate. Additionally, limits are set on single party credit exposures which are subject to periodic management review.

Under fair value measurements, the Company incorporates the market’s perception of its own and the counterparty’s non-performance risk in determining the fair value of the portion of its OTC derivative assets and liabilities that are uncollateralized. Credit spreads are applied to the derivative fair values on a net basis by counterparty. To reflect the Company’s own credit spread, a proxy based on relevant debt spreads is applied to OTC derivative net liability positions. Similarly, the Company’s counterparty’s credit spread is applied to OTC derivative net asset positions.

**6. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS**

***Commitments***

The Company has made commitments to fund commercial loans. As of September 30, 2017, there were \$3 million outstanding commitments to fund commercial loans, and none as of December 31, 2016. The Company has made commitments to purchase or fund investments, mostly private fixed maturities. As of September 30, 2017 and December 31, 2016, \$37 million and \$14 million, respectively, of these commitments were outstanding.

***Contingent Liabilities***

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

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

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

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

***Litigation and Regulatory Matters***

The Company is subject to legal and regulatory actions in the ordinary course of its business. Pending legal and regulatory actions include proceedings specific to the Company and proceedings generally applicable to business practices in the industry in which it operates. The Company is subject to class action lawsuits and other litigation involving a variety of issues and allegations involving sales practices, claims payments and procedures, premium charges, policy servicing and breach of fiduciary duty to customers. The Company is also subject to litigation arising out of its general business activities, such as its investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment, and could be exposed to claims or litigation concerning certain business or process patents. In addition, the Company, along with other participants in the businesses in which it engages, may be subject from time to time to investigations, examinations and inquiries, in some cases industry-wide, concerning issues or matters upon which such regulators have determined to focus. In some of the Company’s pending legal and regulatory actions, parties are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but the matter, if material, is disclosed, including matters discussed below. The Company estimates that as of September 30, 2017, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than \$10 million. This estimate is not an indication of expected loss, if any, or the Company’s maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

***Securities Lending Matter***

In 2016, Prudential Financial self-reported to the SEC and the U.S. Department of Labor, and notified other regulators, that in some cases it failed to maximize securities lending income for the benefit of certain separate account investments. Prudential Financial has substantially implemented a remediation plan for the benefit of customers. Prudential Financial is cooperating with regulators in their review of this matter (which includes a review of the remediation plan) and has entered into discussions with the SEC staff regarding a possible settlement that would potentially involve charges under the Investment Advisers Act and financial remedies. We cannot predict the outcome of these discussions.

For a discussion of the Company’s litigation and regulatory matters, see Note 11 to the Company’s Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**Summary**

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

**7. REINSURANCE**

The Company participates in reinsurance with its affiliates Prudential Arizona Reinsurance Captive Company ("PARCC"), Prudential Arizona Reinsurance Term Company ("PAR Term"), Prudential Arizona Reinsurance Universal Company ("PAR U"), and Prudential Term Reinsurance Company ("Term Re"), its parent companies, Pruco Life and Prudential Insurance, as well as third parties, and participated in reinsurance with its affiliate Pruco Re through March 31, 2016. The reinsurance agreements provide risk diversification and additional capacity for future growth, limit the maximum net loss potential, manage statutory capital, facilitate the Company's capital market hedging program, and align accounting methodology for the assets and liabilities of living benefit guarantees contained in annuities contracts. See Note 1 for additional information on the change effective April 1, 2016 related to the Variable Annuities Recapture. Life reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term and coinsurance. Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. The Company believes a material reinsurance liability resulting from such inability of reinsurers to meet their obligations is unlikely.

Reserves related to reinsured long duration contracts are accounted for using assumptions consistent with those used to account for the underlying contracts. Amounts recoverable from reinsurers for long duration reinsurance arrangements are estimated in a manner consistent with the claim liabilities and policy benefits associated with the reinsured policies. Reinsurance premiums ceded for universal life products are accounted for as a reduction of policy charges and fee income. Reinsurance premiums ceded for term insurance products are accounted for as a reduction of premiums.

Realized investment gains and losses include the impact of reinsurance agreements, particularly reinsurance agreements involving living benefit guarantees. The Company has entered into a reinsurance agreement to transfer the risk related to living benefit guarantees on variable annuities to Prudential Insurance. See Note 1 for additional information on the change effective April 1, 2016 related to the Variable Annuities Recapture. These reinsurance agreements are derivatives and have been accounted for in the same manner as embedded derivatives and the changes in the fair value of these derivatives are recognized through "Realized investment gains (losses), net". See Note 5 for additional information related to the accounting for embedded derivatives.

Reinsurance amounts included in the Company's Unaudited Interim Consolidated Statements of Financial Position as of September 30, 2017 and December 31, 2016 were as follows:

|                                   | September 30, 2017 | December 31, 2016 |
|-----------------------------------|--------------------|-------------------|
|                                   | (in thousands)     |                   |
| Reinsurance recoverables          | \$ 2,400,478       | \$ 2,252,049      |
| Policy loans                      | (15,776)           | (15,118)          |
| Deferred policy acquisition costs | (697,166)          | (687,042)         |
| Deferred sales inducements        | (58,533)           | (58,062)          |
| Other assets                      | 19,825             | 20,880            |
| Other liabilities                 | 50,271             | 39,231            |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The reinsurance recoverables by counterparty are broken out below:

|                                | <u>September 30, 2017</u> | <u>December 31, 2016</u> |
|--------------------------------|---------------------------|--------------------------|
|                                | (in thousands)            |                          |
| Prudential Insurance           | \$ 819,103                | \$ 778,958               |
| PAR U                          | 787,865                   | 725,572                  |
| PARCC                          | 492,124                   | 497,638                  |
| PAR Term                       | 180,279                   | 163,330                  |
| Term Re                        | 107,559                   | 73,895                   |
| Pruco Life                     | 10,440                    | 10,142                   |
| Unaffiliated                   | 3,108                     | 2,514                    |
| Total reinsurance recoverables | <u>\$ 2,400,478</u>       | <u>\$ 2,252,049</u>      |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

Reinsurance amounts, included in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 30, were as follows:

|                                                                                                                | Three Months Ended September 30, |           | Nine Months Ended September 30, |            |
|----------------------------------------------------------------------------------------------------------------|----------------------------------|-----------|---------------------------------|------------|
|                                                                                                                | 2017                             | 2016      | 2017                            | 2016       |
|                                                                                                                | (in thousands)                   |           |                                 |            |
| Premiums:                                                                                                      |                                  |           |                                 |            |
| Direct                                                                                                         | \$ 57,376                        | \$ 53,304 | \$ 172,762                      | \$ 161,347 |
| Ceded                                                                                                          | (53,950)                         | (48,400)  | (163,136)                       | (195,682)  |
| Net premiums                                                                                                   | 3,426                            | 4,904     | 9,626                           | (34,335)   |
| Policy charges and fee income:                                                                                 |                                  |           |                                 |            |
| Direct                                                                                                         | 96,618                           | 82,036    | 314,799                         | 195,114    |
| Assumed                                                                                                        | 0                                | (2)       | 0                               | (2)        |
| Ceded(1)                                                                                                       | (90,789)                         | (76,504)  | (285,065)                       | (137,228)  |
| Net policy charges and fee income                                                                              | 5,829                            | 5,530     | 29,734                          | 57,884     |
| Net investment income:                                                                                         |                                  |           |                                 |            |
| Direct                                                                                                         | 16,223                           | 22,813    | 49,633                          | 56,430     |
| Ceded                                                                                                          | (151)                            | (146)     | (447)                           | (401)      |
| Net investment income                                                                                          | 16,072                           | 22,667    | 49,186                          | 56,029     |
| Asset administration fees:                                                                                     |                                  |           |                                 |            |
| Direct                                                                                                         | 9,936                            | 9,057     | 28,757                          | 25,750     |
| Ceded                                                                                                          | (7,564)                          | (6,944)   | (21,891)                        | (13,536)   |
| Net asset administration fees                                                                                  | 2,372                            | 2,113     | 6,866                           | 12,214     |
| Realized investment gains (losses), net:                                                                       |                                  |           |                                 |            |
| Direct                                                                                                         | 127,633                          | 33,309    | 39,201                          | (236,237)  |
| Ceded                                                                                                          | (131,233)                        | (37,121)  | (49,244)                        | 329,682    |
| Realized investment gains (losses), net                                                                        | (3,600)                          | (3,812)   | (10,043)                        | 93,445     |
| Policyholders' benefits (including change in reserves):                                                        |                                  |           |                                 |            |
| Direct                                                                                                         | 69,360                           | 103,234   | 220,229                         | 219,878    |
| Ceded(2)                                                                                                       | (72,593)                         | (102,970) | (212,400)                       | (222,292)  |
| Net policyholders' benefits (including change in reserves)                                                     | (3,233)                          | 264       | 7,829                           | (2,414)    |
| Interest credited to policyholders' account balances:                                                          |                                  |           |                                 |            |
| Direct                                                                                                         | 17,921                           | 8,553     | 40,079                          | 46,864     |
| Ceded                                                                                                          | (9,477)                          | (1,043)   | (15,668)                        | (10,747)   |
| Net interest credited to policyholders' account balances                                                       | 8,444                            | 7,510     | 24,411                          | 36,117     |
| Reinsurance expense allowances and general and administrative expenses, net of capitalization and amortization | (54,460)                         | (17,498)  | (133,435)                       | (62,849)   |

(1) "Policy charges and fee income ceded" includes \$(4) million and \$(3) million of unaffiliated activity for both the three and nine months ended September 30, 2017 and 2016, respectively.

(2) "Policyholders' benefits (including change in reserves) ceded" includes \$(3) million and \$(2) million of unaffiliated activity for the three months ended September 30, 2017 and 2016, respectively, and \$(1) million for both the nine months ended September 30, 2017 and 2016.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The gross and net amounts of life insurance face amount in force as of September 30, 2017 and 2016 were as follows:

|                                           | 2017           | 2016           |
|-------------------------------------------|----------------|----------------|
|                                           | (in thousands) |                |
| Gross life insurance face amount in force | \$ 134,814,151 | \$ 127,999,559 |
| Reinsurance ceded                         | (122,782,744)  | (116,739,835)  |
| Net life insurance face amount in force   | \$ 12,031,407  | \$ 11,259,724  |

Information regarding significant affiliated reinsurance agreements is described below.

**Prudential Insurance**

The Company has a yearly renewable term reinsurance agreement with Prudential Insurance and reinsures the majority of all mortality risks not otherwise reinsured. Effective July 1, 2017, this agreement is being terminated for certain new policies, primarily Universal Life business, which was reinsured to Pruco Life under a yearly renewable term reinsurance agreement. Effective April 1, 2016 the Company has entered into a reinsurance agreement with Prudential Insurance to reinsure its variable annuity base contracts, along with the living benefit guarantees. See Note 1 for additional information related to the Variable Annuity Recapture.

**PAR U**

Effective July 1, 2011, the Company reinsures an amount equal to 95% of all risks associated with its universal life policies with PAR U.

**PARCC**

The Company reinsures 90% of the risks under its term life insurance policies with effective dates prior to January 1, 2010 through an automatic coinsurance agreement with PARCC.

**PAR Term**

The Company reinsures 95% of the risks under its term life insurance policies, with effective dates January 1, 2010 through December 31, 2013, through an automatic coinsurance agreement with PAR Term.

**Term Re**

The Company reinsures 95% of the risks under its term life insurance policies with effective dates on or after January 1, 2014 through an automatic coinsurance agreement with Term Re.

**Pruco Life**

Effective July 1, 2017, the Company has entered into a yearly renewable term reinsurance agreement with Pruco Life for new business, primarily covering Universal Life policies. Under this agreement the majority of all mortality risk is ceded to Pruco Life. The Company also reinsures certain Corporate Owned Life Insurance ("COLI") policies with Pruco Life. Through March 31, 2016, the Company reinsured Prudential Defined Income ("PDI") living benefit guarantees with Pruco Life. Effective April 1, 2016, the Company recaptured PDI living benefit guarantees from Pruco Life and reinsured them with Prudential Insurance. See Note 1 for additional information related to the Variable Annuities Recapture.

**Pruco Re**

Through March 31, 2016, the Company entered into various automatic coinsurance agreements with Pruco Re to reinsure its living benefit guarantees sold on certain of its annuities. See Note 1 for additional information on the change effective April 1, 2016 related to the Variable Annuities Recapture.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**8. EQUITY**

***Accumulated Other Comprehensive Income (Loss)***

The balance of and changes in each component of “Accumulated other comprehensive income (loss)” for the nine months ended September 30, 2017 and 2016, are as follows:

|                                        | Accumulated Other Comprehensive Income (Loss) |                                             |                                                     |
|----------------------------------------|-----------------------------------------------|---------------------------------------------|-----------------------------------------------------|
|                                        | Foreign Currency Translation Adjustments      | Net Unrealized Investment Gains (Losses)(1) | Total Accumulated Other Comprehensive Income (Loss) |
|                                        | (in thousands)                                |                                             |                                                     |
| Balance, December 31, 2016             | \$ (70)                                       | \$ 12,231                                   | \$ 12,161                                           |
| Change in OCI before reclassifications | 37                                            | 22,659                                      | 22,696                                              |
| Amounts reclassified from AOCI         | 0                                             | 1,014                                       | 1,014                                               |
| Income tax benefit (expense)           | (13)                                          | (8,286)                                     | (8,299)                                             |
| Balance, September 30, 2017            | <u>\$ (46)</u>                                | <u>\$ 27,618</u>                            | <u>\$ 27,572</u>                                    |

|                                        | Accumulated Other Comprehensive Income (Loss) |                                             |                                                     |
|----------------------------------------|-----------------------------------------------|---------------------------------------------|-----------------------------------------------------|
|                                        | Foreign Currency Translation Adjustments      | Net Unrealized Investment Gains (Losses)(1) | Total Accumulated Other Comprehensive Income (Loss) |
|                                        | (in thousands)                                |                                             |                                                     |
| Balance, December 31, 2015             | \$ (69)                                       | \$ 11,850                                   | \$ 11,781                                           |
| Change in OCI before reclassifications | 27                                            | 56,336                                      | 56,363                                              |
| Amounts reclassified from AOCI         | 0                                             | 1,005                                       | 1,005                                               |
| Income tax benefit (expense)           | (9)                                           | (20,070)                                    | (20,079)                                            |
| Balance, September 30, 2016            | <u>\$ (51)</u>                                | <u>\$ 49,121</u>                            | <u>\$ 49,070</u>                                    |

(1) Includes cash flow hedges of \$(2) million and \$5 million as of September 30, 2017 and December 31, 2016, respectively, and \$3 million and \$6 million as of September 30, 2016 and December 31, 2015, respectively.

***Reclassifications out of Accumulated Other Comprehensive Income (Loss)***

|                                                                               | Three Months Ended September 30, |          | Nine Months Ended September 30, |            |
|-------------------------------------------------------------------------------|----------------------------------|----------|---------------------------------|------------|
|                                                                               | 2017                             | 2016     | 2017                            | 2016       |
|                                                                               | (in thousands)                   |          |                                 |            |
| <u>Amounts reclassified from AOCI (1)(2):</u>                                 |                                  |          |                                 |            |
| Net unrealized investment gains (losses):                                     |                                  |          |                                 |            |
| Cash flow hedges - Currency/ Interest rate (3)                                | \$ 18                            | \$ 506   | \$ (275)                        | \$ 1,645   |
| Net unrealized investment gains (losses) on available-for-sale securities (4) | (488)                            | (996)    | (739)                           | (2,650)    |
| Total net unrealized investment gains (losses)                                | (470)                            | (490)    | (1,014)                         | (1,005)    |
| Total reclassifications for the period                                        | \$ (470)                         | \$ (490) | \$ (1,014)                      | \$ (1,005) |

(1) All amounts are shown before tax.

(2) Positive amounts indicate gains/ benefits reclassified out of AOCI. Negative amounts indicate losses/ costs reclassified out of AOCI.

(3) See Note 5 for additional information on cash flow hedges.

(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition costs and other costs, future policy benefits and policyholders’ account balances.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**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:

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

|                                                                                                                  | Net Unrealized<br>Gains (Losses) on<br>Investments | Deferred Policy<br>Acquisition Costs and<br>Other Costs | Future Policy Benefits<br>and Policyholders'<br>Account Balances <sup>(1)</sup> | Deferred<br>Income Tax<br>(Liability)<br>Benefit | Accumulated Other<br>Comprehensive<br>Income (Loss) Related To Net<br>Unrealized Investment<br>Gains (Losses) |
|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
|                                                                                                                  |                                                    |                                                         | (in thousands)                                                                  |                                                  |                                                                                                               |
| Balance, December 31, 2016                                                                                       | 147                                                | 173                                                     | 123                                                                             | (155)                                            | 288                                                                                                           |
| Net investment gains (losses) on investments arising during the period                                           | 24                                                 | 0                                                       | 0                                                                               | (8)                                              | 16                                                                                                            |
| Reclassification adjustment for (gains) losses included in net income                                            | (9)                                                | 0                                                       | 0                                                                               | 3                                                | (6)                                                                                                           |
| Reclassification adjustment for OTTI (gains) losses excluded from net income (1)                                 | 4                                                  | 0                                                       | 0                                                                               | (1)                                              | 3                                                                                                             |
| Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs          | 0                                                  | (268)                                                   | 0                                                                               | 94                                               | (174)                                                                                                         |
| Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances | 0                                                  | 0                                                       | (9)                                                                             | 3                                                | (6)                                                                                                           |
| Balance, September 30, 2017                                                                                      | <u>\$ 166</u>                                      | <u>\$ (95)</u>                                          | <u>\$ 114</u>                                                                   | <u>\$ (64)</u>                                   | <u>\$ 121</u>                                                                                                 |

(1) Balances are net of reinsurance.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

*All Other Net Unrealized Investment Gains (Losses) in AOCI*

|                                                                                                                  | Net Unrealized<br>Gains (Losses) on<br>Investments(1) | Deferred Policy<br>Acquisition Costs<br>and Other Costs | Future Policy Benefits<br>and Policyholders'<br>Account Balances(2) | Deferred<br>Income Tax<br>(Liability)<br>Benefit | Accumulated Other<br>Comprehensive<br>Income (Loss) Related To Net<br>Unrealized Investment<br>Gains (Losses) |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------|---------------------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
|                                                                                                                  | (in thousands)                                        |                                                         |                                                                     |                                                  |                                                                                                               |
| Balance, December 31, 2016                                                                                       | 18,666                                                | \$ (948)                                                | \$ 655                                                              | \$ (6,430)                                       | 11,943                                                                                                        |
| Net investment gains (losses) on investments arising during the period                                           | 25,227                                                | 0                                                       | 0                                                                   | (8,830)                                          | 16,397                                                                                                        |
| Reclassification adjustment for (gains) losses included in net income                                            | (1,005)                                               | 0                                                       | 0                                                                   | 352                                              | (653)                                                                                                         |
| Reclassification adjustment for OTTI (gains) losses excluded from net income (1)                                 | (4)                                                   | 0                                                       | 0                                                                   | 1                                                | (3)                                                                                                           |
| Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs          | 0                                                     | (3,154)                                                 | 0                                                                   | 1,104                                            | (2,050)                                                                                                       |
| Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances | 0                                                     | 0                                                       | 2,867                                                               | (1,004)                                          | 1,863                                                                                                         |
| Balance, September 30, 2017                                                                                      | <u>\$ 42,884</u>                                      | <u>\$ (4,102)</u>                                       | <u>\$ 3,522</u>                                                     | <u>\$ (14,807)</u>                               | <u>\$ 27,497</u>                                                                                              |

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

(2) Balances are net of reinsurance.

## 9. RELATED PARTY TRANSACTIONS

The Company has extensive transactions and relationships with Prudential Insurance and other affiliates. Although we seek to ensure that these transactions and relationships are fair and reasonable, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

### *Expense Charges and Allocations*

Many of the Company's expenses are allocations or charges from Prudential Insurance or other affiliates. These expenses can be grouped into general and administrative expenses and agency distribution expenses.

The Company's general and administrative expenses are charged to the Company using allocation methodologies based on business production processes. Management believes that the methodology is reasonable and reflects costs incurred by Prudential Insurance to process transactions on behalf of the Company. The Company operates under service and lease agreements whereby services of officers and employees, supplies, use of equipment and office space are provided by Prudential Insurance. The Company reviews its allocation methodology periodically which it may adjust accordingly. General and administrative expenses include allocations of stock compensation expenses related to a stock option program and a deferred compensation program issued by Prudential Financial. The expense charged to the Company for the stock option program was \$0.0 million for both the three months ended September 30, 2017 and 2016, and \$0.1 million for both the nine months ended September 30, 2017 and 2016. The expense charged to the Company for the deferred compensation program was \$0.2 million and \$0.3 million for the three months ended September 30, 2017 and 2016, respectively, and \$0.9 million and \$0.6 million for the nine months ended September 30, 2017 and 2016, respectively.

The Company is charged for its share of employee benefit expenses. These expenses include costs for funded and non-funded contributory and non-contributory defined benefit pension plans. Some of these benefits are based on final earnings and length of service while others are based on an account balance, which takes into consideration age, service and earnings during a career.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The Company's share of net expense for the pension plans was \$0.7 million for both the three months ended September 30, 2017 and 2016, and \$2 million for both the nine months ended September 30, 2017 and 2016.

The Company is also charged for its share of the costs associated with welfare plans issued by Prudential Insurance. These expenses include costs related to medical, dental, life insurance and disability. The Company's share of net expense for the welfare plans was \$0.8 million for both the three months ended September 30, 2017 and 2016, and \$3 million for both the nine months ended September 30, 2017 and 2016.

Prudential Insurance sponsors voluntary savings plans for its employee 401(k) plans. The plans provide for salary reduction contributions by employees and matching contributions by the Company of up to 4% of annual salary. The Company's expense for its share of the voluntary savings plan was \$0.3 million for both the three months ended September 30, 2017 and 2016, and \$0.9 million for both the nine months ended September 30, 2017 and 2016.

The Company is charged distribution expenses from Prudential Insurance's agency network for both its domestic life and annuity products through a transfer pricing agreement, which is intended to reflect a market based pricing arrangement.

The Company pays commissions and certain other fees to Prudential Annuities Distributors, Inc. ("PAD") in consideration for PAD's marketing and underwriting of the Company's annuity products. Commissions and fees are paid by PAD to broker-dealers who sell the Company's annuity products. Commissions and fees paid by the Company to PAD were \$15 million and \$18 million for the three months ended September 30, 2017 and 2016, respectively, and \$46 million and \$55 million for the nine months ended September 30, 2017 and 2016, respectively.

The Company is charged for its share of corporate expenses incurred by Prudential Financial to benefit its businesses, such as advertising, executive oversight, external affairs and philanthropic activity. The Company's share of corporate expenses was \$2 million for both the three months ended September 30, 2017 and 2016, and \$6 million and \$5 million for the nine months ended September 30, 2017 and 2016, respectively.

***Corporate Owned Life Insurance***

The Company has sold three Corporate Owned Life Insurance ("COLI") policies to Prudential Insurance and one to Prudential Financial. The cash surrender value included in separate accounts for these COLI policies was \$2,219 million at September 30, 2017 and \$1,992 million at December 31, 2016. Fees related to these COLI policies were \$6 million for both the three months ended September 30, 2017 and 2016, and \$19 million and \$18 million for the nine months ended September 30, 2017 and 2016, respectively. The Company retains 10% of the mortality risk associated with these COLI policies up to \$0.1 million per policy.

***Affiliated Investment Management Expenses***

In accordance with an agreement with PGIM, Inc. ("PGIM"), the Company pays investment management expenses to PGIM who acts as investment manager to certain Company general account and separate account assets. Investment management expenses paid to PGIM related to this agreement were \$0.6 million and \$0.5 million for the three months ended September 30, 2017 and 2016, respectively, and \$2 million for both the nine months ended September 30, 2017 and 2016. These expenses are recorded as "Net investment income" in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

***Derivative Trades***

In its ordinary course of business, the Company enters into OTC derivative contracts with an affiliate, PGF. For these OTC derivative contracts, PGF has a substantially equal and offsetting position with an external counterparty. See Note 5 for additional information.

***Joint Ventures***

The Company has made investments in joint ventures with certain subsidiaries of Prudential Financial. "Other long-term investments" includes \$28 million and \$26 million as of September 30, 2017 and December 31, 2016, respectively. "Net investment income" related to these ventures includes a gain of \$0.5 million and \$0.7 million for the three months ended September 30, 2017 and 2016, respectively, and a gain of \$2 million and \$0.5 million for the nine months ended September 30, 2017 and 2016, respectively.

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

***Affiliated Asset Administration Fee Income***

The Company has a revenue sharing agreement with AST Investment Services, Inc. ("ASTISI") and PGIM Investments LLC ("PGIM Investments") whereby the Company receives fee income based on policyholders' separate account balances invested in the Advanced Series Trust ("AST"). Income received from ASTISI and PGIM Investments related to this agreement was \$8 million and \$7 million for the three months ended September 30, 2017 and 2016, respectively, and \$22 million and \$20 million for the nine months ended September 30, 2017 and 2016, respectively. These revenues are recorded as "Asset administration fees" in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company has a revenue sharing agreement with PGIM Investments, whereby the Company receives fee income based on policyholders' separate account balances invested in The Prudential Series Fund. Income received from PGIM Investments related to this agreement was \$2 million for both the three months ended September 30, 2017 and 2016, and \$7 million and \$6 million for the nine months ended September 30, 2017 and 2016, respectively. These revenues are recorded as "Asset administration fees" in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

***Affiliated Notes Receivable***

Affiliated notes receivable included in "Other assets" at September 30, 2017 and December 31, 2016 were as follows:

|                                                  | <u>Maturity Dates</u> | <u>Interest Rates</u> | <u>September 30, 2017</u> | <u>December 31, 2016</u> |
|--------------------------------------------------|-----------------------|-----------------------|---------------------------|--------------------------|
|                                                  |                       |                       | (in thousands)            |                          |
| U.S. Dollar floating rate notes                  | 2028                  | 2.73% - 2.76%         | \$ 6,051                  | \$ 0                     |
| U.S. Dollar fixed rate notes                     | 2026 - 2028           | 0.00% - 14.85%        | 3,547                     | 9,866                    |
| Total long-term notes receivable - affiliated(1) |                       |                       | <u>\$ 9,598</u>           | <u>\$ 9,866</u>          |

(1) All long-term notes receivable may be called for prepayment prior to the respective maturity dates under specified circumstances.

The affiliated notes receivable shown above include those classified as loans, and carried at unpaid principal balance, net of any allowance for losses and those classified as available-for-sale securities and other trading account assets carried at fair value. The Company monitors the internal and external credit ratings of these loans and loan performance. The Company also considers any guarantees made by Prudential Insurance for loans due from affiliates.

Accrued interest receivable related to these loans was \$0.1 million and \$0.0 million at September 30, 2017 and December 31, 2016, respectively and is included in "Other assets". Revenues related to these loans were \$0.1 million for both the three months ended September 30, 2017 and 2016, and \$0.2 million and \$0.3 million for the nine months ended September 30, 2017 and 2016, respectively, and are included in "Other income".

***Affiliated Asset Transfers***

The Company participates in affiliated asset trades with parent and sister companies. Book and market value differences for trades with a parent and sister are recognized within "Additional paid-in capital" ("APIC") and "Realized investment gains (losses), net", respectively. See Note 1 for affiliated asset trades related to the Variable Annuities Recapture effective April 1, 2016.

| <u>Affiliate</u>     | <u>Date</u> | <u>Transaction</u> | <u>Security Type</u>                      | <u>Fair Value</u> | <u>Book Value</u> | <u>APIC, Net of Tax Increase/(Decrease)</u> |
|----------------------|-------------|--------------------|-------------------------------------------|-------------------|-------------------|---------------------------------------------|
|                      |             |                    |                                           | (in thousands)    |                   |                                             |
| Prudential Insurance | June 2017   | Sale               | Fixed Maturities & Short-Term Investments | \$ 16,965         | \$ 16,515         | \$ 293                                      |
| Prudential Insurance | June 2017   | Sale               | Commercial Mortgages                      | \$ 43,198         | \$ 42,301         | \$ 584                                      |

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

***Debt Agreements***

The Company is authorized to borrow funds up to \$200 million from affiliates to meet its capital and other funding needs. During the second quarter of 2016, the Company reassigned all the remaining debt to Prudential Insurance as part of the Variable Annuities Recapture. See Note 1 for additional information on the reassignment effective April 1, 2016. As of September 30, 2017, there was no debt outstanding.

The total interest expense to the Company related to loans payable to affiliates was \$0.0 million for both the three months ended September 30, 2017 and 2016, and \$0.0 million and \$1 million for the nine months ended September 30, 2017 and 2016, respectively.

***Contributed Capital and Dividends***

In both March 2017 and 2016, the Company received a capital contribution in the amount of \$1 million from Pruco Life.

In June 2017, the Company paid a dividend in the amount of \$100 million to Pruco Life. In April 2016, the Company paid a dividend in the amount of \$241 million to Pruco Life.

***Reinsurance with Affiliates***

As discussed in Note 7, the Company participates in reinsurance transactions with certain affiliates.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") addresses the consolidated financial condition of Pruco Life Insurance Company of New Jersey, or the "Company," as of September 30, 2017, compared with December 31, 2016, and its consolidated results of operations for the three and six months ended September 30, 2017 and 2016. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the "Risk Factors" section, and the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as well as the statements under "Forward-Looking Statements" and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.*

### **Overview**

The Company sells variable and fixed annuities, universal life insurance, variable life insurance and term life insurance in New Jersey and New York only and sells such products primarily through affiliated and unaffiliated distributors.

### **Variable Annuities Recapture**

Through March 31, 2016, the Company reinsured the majority of its variable annuity living benefit guarantees to its affiliated companies, Pruco Reinsurance, Ltd. ("Pruco Re") and Pruco Life Insurance Company ("Pruco Life"), in order to facilitate the capital markets hedging program for these living benefit guarantees in Pruco Re. Effective April 1, 2016, the Company recaptured the risks related to its variable annuity living benefit guarantees that were previously reinsured to Pruco Re and Pruco Life. In addition, the Company reinsured the variable annuity base contracts, along with the living benefit guarantees, to The Prudential Insurance Company of America ("Prudential Insurance"). This reinsurance agreement covers new and in force business. The product risks related to the reinsured business are being managed in Prudential Insurance. These series of transactions are collectively referred to as the "Variable Annuities Recapture."

### **Regulatory Developments**

#### *Fiduciary Rules*

The U.S. Department of Labor's ("DOL") new fiduciary rules became applicable, in part, on June 9, 2017, with certain additional provisions scheduled to become applicable on January 1, 2018. In August 2017, the DOL issued a proposed 18-month extension of the January 1, 2018 applicability date to July 1, 2019. In connection with the ongoing examination of the rules as directed by President Trump in February 2017, the DOL also issued a request for information seeking public comment on the rules. In addition, the Secretary of Labor has stated that he will seek to engage with the U.S. Securities and Exchange Commission (the "SEC") on the rules, and in June 2017, the Chairman of the SEC issued a public statement soliciting comments on the standard of conduct for investment advisers and broker-dealers when they provide advice to retail investors. The National Association of Insurance Commissioners ("NAIC") has also formed an Annuity Suitability Working Group which is considering the development of enhanced standards for the sale of annuities. We cannot predict what impact these developments will have on the rules or the standard of conduct applicable to the Company.

#### *Regulation as a Designated Financial Company*

*Presidential Memorandum Regarding the Financial Stability Oversight Council* - In April 2017, President Trump issued a memorandum directing the Secretary of the Treasury, among other things, to conduct a review of the Financial Stability Oversight Council's (the "Council") process for designating non-bank financial companies ("Designated Financial Companies") for supervision by the Board of Governors of the Federal Reserve System (the "FRB") and to report conclusions to the President within 180 days regarding issues raised in the memorandum, and recommendations for process improvements, including necessary legislative changes. We cannot predict what impact the review will ultimately have on the designation process or Prudential Financial.

*The Financial CHOICE Act* - In June 2017, the U.S. House of Representatives passed the Financial CHOICE Act, which would amend certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), including the authority of the Council to designate non-bank financial companies for FRB supervision. We cannot predict whether this or other legislation impacting Dodd-Frank will ultimately be passed into law, or how such legislation will impact Prudential Financial.

*Resolution Planning* - In July 2017, the FRB and the Federal Deposit Insurance Corporation announced that for Designated Financial Companies the next resolution plan filing deadline will be delayed from December 31, 2017 to December 31, 2018.

### *U.S. Department of the Treasury Report*

In October 2017, in response to President Trump's February 2017 executive order, the U.S. Department of the Treasury released a report titled "A Financial System That Creates Economic Opportunities - Asset Management and Insurance." The report identifies laws, regulations and other requirements that promote or inhibit certain core principles of financial regulation that are outlined in the order. Among other things, the report recommends that primary federal and state regulators should focus on potential systemic risks arising from products and activities, and on implementing regulations that strengthen the asset management and insurance industries as a whole, rather than focus on an entity-based regulatory regime. The report also affirms the role of the U.S. state-based system of insurance regulation. In addition, the report also supports current efforts at the DOL to reexamine, and delay full implementation of, the fiduciary rules, and encourages the DOL and SEC to work with state insurance regulators to evaluate the impacts of a fiduciary rule across markets. The Company is evaluating the recommendations set forth in the report and their potential impact on our business. We cannot predict whether any of the recommendations will ultimately become laws, regulations or other requirements applicable to our business.

### *U.S. Tax Legislation*

In September 2017, the Trump Administration and Republican Congressional leadership released a Unified Framework for Fixing Our Broken Tax Code ("the Framework") that is intended to serve as a template for the tax-writing committees as they develop tax reform legislation. The Framework would reduce the corporate tax rate to 20%, provide for a partial limitation of the deduction for net interest, introduce a territorial tax system with a one-time deemed repatriation tax and aim to repeal the corporate alternative minimum tax. The Framework does not address insurance industry specific provisions such as the dividends received deduction, tax reserves and deferred policy acquisition costs. The Framework would also reduce individual tax rates from seven brackets to three with a top rate of 35%, repeal the individual alternative minimum tax, increase the standard deduction, eliminate many other deductions and repeal the estate tax.

In November 2017, the Tax Cuts and Jobs Act (the "House Tax Bill") was introduced in the U.S. House of Representatives. The House Tax Bill would, among other changes, permanently reduce the corporate tax rate from 35% to 20% and modify the taxation of life insurance companies and non-U.S. subsidiaries. For individuals and families, the House Tax Bill would also modify certain deductions and income tax brackets and repeal the alternative minimum tax.

We cannot predict whether the Framework and/or House Tax Bill will ultimately form the basis for changes in the tax laws applicable to the Company, our products or our customers, or the timing of any such changes. Tax reform may change the Company's tax profile, make our products less attractive and/or reduce our statutory capital position. We are currently analyzing the House Tax Bill for the impact on the Company should it become law.

For additional information on the potential impacts of regulation on the Company see "Business-Regulation" and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016.

### **Impact of a Low Interest Rate Environment**

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

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

For more information on interest rate risks, see "Risk Factors—Risks Relating to Economic and Market Conditions" included in our Annual Report on Form 10-K for the year ended December 31, 2016.

## **Revenues and Expenses**

The Company earns revenues principally from insurance premiums, mortality and expense fees, asset administration fees from insurance and investment products, and from net investment income on the investment of general account and other funds. The Company earns premiums primarily from the sale of individual life insurance and annuity products. The Company earns mortality and expense fees, and asset administration fees primarily from the sale and servicing of universal life insurance and separate account products including variable life insurance and variable annuities. The Company's operating expenses principally consist of insurance benefits provided and reserves established for anticipated future insurance benefits, general business expenses, reinsurance premiums, commissions and other costs of selling and servicing the various products sold and interest credited on general account liabilities.

Effective February 25, 2013, the Advanced Series Trust ("AST") adopted a Rule 12b-1 Plan under the Investment Company Act of 1940 with respect to most of the AST portfolios that are offered through the Company's variable annuity and variable life insurance products. Under the Rule 12b-1 Plan, AST pays an affiliate of the Company for distribution and administrative services. In June 2015, AST received shareholder approval to amend the Rule 12b-1 Plan. Effective July 1, 2015, there was an increase in the amount AST pays the Company's affiliate for distribution and administrative services with respect to these portfolios. However, there was also a reduction in contractual investment management fees. In addition, due to the revised Rule 12b-1 Plan, the asset administration fees received by the Company from AST Investment Services, Inc., and related distribution expenses of the Company, have decreased.

## **Profitability**

The Company's profitability depends principally on its ability to price our insurance and annuity products at a level that enables us to earn a margin over the costs associated with providing benefits and administering those products. Profitability also depends on, among other items, our actuarial and policyholder behavior experience on insurance and annuity products, our ability to attract and retain customer assets, generate and maintain favorable investment results, and manage expenses.

See "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of risks that have materially affected and may affect in the future the Company's business, results of operations or financial condition, or cause the Company's actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company.

## **Products**

### *Individual Annuities*

The Company offers a wide array of annuities, including variable annuities with (1) fixed interest rate allocation options, subject to a market value adjustment, that are registered with the SEC and (2) fixed-rate allocation options not subject to a market value adjustment and not registered with the SEC. The Company also offers fixed annuitization options during the payout phase of its variable annuities.

We offer certain variable annuities that provide our contractholders with tax-deferred asset accumulation together with a base death benefit and a suite of optional guaranteed living benefits (including versions with enhanced guaranteed minimum death benefits) and annuitization options. The majority of our currently sold contracts include an optional guaranteed living benefit. Certain optional living benefits provide, among other features, the ability to make withdrawals based on the highest daily contract value plus a specified return, credited for a period of time. This contract value is a notional amount that forms the basis for determining periodic withdrawals for the life of the contractholder, and cannot be accessed as a lump-sum surrender value. Certain optional living benefits can also be purchased with a companion optional death benefit, also based on a highest daily contract value. Our results are impacted by the fee rates we assess on our products. Some of our historical in force products have fee tiers that decline throughout the life of the contract while our newer products generally have lower fee rates.

The Prudential Premier® Retirement Variable Annuity with Highest Daily Lifetime Income ("HDI") offers lifetime income based on the highest daily account value plus a compounded deferral credit. HDI v.3.0 is the most current version of our "highest daily" guaranteed living benefits.

The Prudential Defined Income ("PDI") Variable Annuity complements the variable annuity products we offer with the highest daily lifetime income benefit. PDI provides for guaranteed lifetime withdrawal payments, but restricts contractholder investment to a single bond fund sub-account within the separate account. PDI includes a living benefit guarantee which provides for a specified lifetime income withdrawal rate applied to the initial purchase payment paid, subject to annual roll-up increases until lifetime withdrawals commence, but does not have the highest daily feature.

We also offer variable annuities without guaranteed living benefits. The Prudential Premier® Investment Variable Annuity ("PPI") offers tax-deferred asset accumulation, annuitization options and an optional death benefit that guarantees the contractholder's beneficiary a return of total purchase payments made to the contract, adjusted for any partial withdrawals, upon death.

Excluding our PDI product, the majority of our variable annuities generally provide our contractholders with the opportunity to allocate purchase payments to sub-accounts that invest in underlying proprietary and/or non-proprietary mutual funds, frequently under asset allocation programs. Certain products also allow or require allocation to fixed-rate accounts that are invested in the general account and are credited with interest at rates we determine, subject to certain minimums. We also offer fixed annuities that provide a guarantee of principal and interest credited at rates we determine, subject to certain contractual minimums. For certain products, we have the ability to reset the crediting rates at our discretion subject to certain contract terms establishing guaranteed minimum interest crediting rates. Certain allocations made in the fixed-rate accounts of our variable annuities and certain fixed annuities impose a market value adjustment if the invested amount is not held to maturity.

In addition, most contracts also guarantee the contractholder's beneficiary a return of total purchase payments made to the contract, adjusted for any partial withdrawals, upon death. Certain in force contracts include guaranteed benefits which are not currently offered, such as annuitization benefits based on a guaranteed notional amount and benefits payable at specified dates after the accumulation period.

The Company's in force business includes both variable and fixed annuities that may include optional guaranteed living benefits guarantees (e.g., guaranteed minimum income benefits ("GMIB"), guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB"), and guaranteed minimum income and withdrawal benefits ("GMIWB")), and/or guaranteed minimum death benefits ("GMDB").

The reserves for GMDB and GMIB are calculated based on best estimates applying our actuarial and capital markets return assumptions in accordance with an insurance fulfillment accounting framework whereby a liability is established over time representing the portion of fees collected that is expected to be used to satisfy the obligation to pay benefits in future periods.

In contrast, certain of our guaranteed living benefits (e.g., GMAB, GMWB and GMIWB) are accounted for in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") as embedded derivatives and reported using a fair value accounting framework. These benefit features are carried at fair value based on estimates of assumptions a market participant would use in valuing these embedded derivatives and the change in fair value during each reporting period is recorded within "Realized investment gains (losses), net".

As mentioned below, in addition to our asset transfer feature, we manage certain risks associated with our variable annuity products through affiliated reinsurance agreements. Through March 31, 2016, we reinsured the majority of our variable annuity living benefit guarantees to an affiliated reinsurance company, Pruco Re. The living benefits hedging program was primarily executed within Pruco Re to manage capital markets risk associated with the reinsured living benefit guarantees. Effective April 1, 2016, the Company recaptured the risks related to its variable annuity living benefit guarantees that were previously reinsured to Pruco Re and Pruco Life. In addition, the Company reinsured the variable annuity base contracts, along with the living benefit guarantees, to Prudential Insurance. This reinsurance agreement covers new and in force business. The product risks related to the reinsured business are being managed in Prudential Insurance. In addition, the living benefits hedging program related to the reinsured living benefit guarantees is being managed within Prudential Insurance.

#### *Term Life Insurance*

The Company offers a variety of term life insurance products, which represent 70% of our net individual life insurance in force at September 30, 2017, that provide coverage for a specified time period. Most term products include a conversion feature that allows the policyholder to convert the policy into permanent life insurance coverage. The Company also offers term life insurance that provides for a return of premium if the insured is alive at the end of the level premium period. There continues to be significant demand for term life insurance protection.

### *Variable Life Insurance*

The Company offers a number of individual variable life insurance products, which represent 18% of our net individual life insurance in force at September 30, 2017, that give the policyholder the flexibility to change both the death benefit and premium payments, and provide the potential to earn returns linked to an underlying investment portfolio that the policyholder selects. The policyholder generally can make deposits for investments in a fixed-rate option which is part of our general account or in separate account investment options consisting of equity and fixed income funds. Funds invested in the fixed-rate option provide a guarantee of principal and are credited with interest at rates that we determine, subject to certain contractual minimums. In the separate accounts, the policyholder bears the fund performance risk. The Company also offers a variable life product that has an optional flexible guarantee against lapse where policyholders can select the guarantee period. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance. A meaningful portion of the Company's individual life insurance profits, however, is associated with our large in force block of variable life insurance policies.

### *Universal Life Insurance*

The Company offers universal life insurance products that feature flexible premiums and a crediting rate that we determine, subject to certain contractual minimums. Guaranteed universal life products, which represent 9% of our net individual life insurance in force at September 30, 2017, provide a guarantee of death benefits to remain in force when a policy would otherwise lapse due to insufficient cash value. The Company also offers other universal life insurance products which represent 3% of our net individual life insurance in force at September 30, 2017. These include products that allow the policyholders to allocate all or a portion of their account balance into an index account. The index account provides interest or an interest component linked to, but not an investment in, S&P 500 index performance over the following year, subject to certain participation rates and contractual minimums and maximums. Mortality and expense margins and net interest spread impact profits from universal life insurance.

## **Accounting Policies & Pronouncements**

### **Application of Critical Accounting Estimates**

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

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

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

### ***DAC and Other Costs***

DAC and other costs associated with the variable and universal life policies and the variable and fixed annuity contracts are generally amortized over the expected life of these policies in proportion to total gross profits. Total gross profits include both actual gross profits and estimates of gross profits for future periods. In calculating gross profits, we consider mortality, persistency, and other elements as well as rates of return on investments associated with these contracts and the cost related to our guaranteed minimum death benefits ("GMDB") and guaranteed minimum income benefits ("GMIB"). For variable annuities, gross profits and amortization rates also include the impacts of the embedded derivatives associated with certain of the living benefit guarantees of our variable annuity contracts and related hedging activities. In calculating amortization expense, we estimate the amounts of gross profits that will be included in our U.S. GAAP results and utilize these estimates to calculate amortization rates and expense amounts. In addition, in calculating gross profits, we include the profits and losses related to contracts issued by the Company that are reported in affiliated legal entities other than the Company as a result of, for example, reinsurance agreements with those affiliated entities. The Company is an indirect subsidiary of Prudential Financial (an SEC registrant) and has extensive transactions and relationships with other subsidiaries of Prudential Financial, including reinsurance agreements, as discussed in Note 9 to the Unaudited Interim Consolidated Financial Statements. Incorporating all product-related profits and losses in gross profits, including those that are reported in affiliated legal entities, produces a DAC amortization pattern representative of the total economics of the products. For a further discussion of the amortization of DAC and other costs, see "Results of Operations".

The near-term future equity rate of return assumptions used in evaluating DAC and other costs for our domestic variable annuity and variable life insurance products are derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the "near-term") so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15%, we use our maximum future rate of return. As of September 30, 2017, our variable annuities and variable life insurance businesses assume an 8% long-term equity expected rate of return and a 4.2% near-term mean reversion equity rate of return.

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

### ***Accounting for Certain Reinsurance Contracts in our Individual Life business***

During the second quarter of 2017, we recognized a pre-tax charge of \$2 million, reflecting a change in our estimate of reinsurance cash flows associated with universal life products as well as a change in our method of reflecting these cash flows in the financial statements. Under our previous method of accounting, with the exception of recoveries pertaining to no lapse guarantees, we generally recognized reinsurance cash flows (e.g., premiums and recoveries) as they occurred. Under our new method, the expected reinsurance cash flows are recognized more ratably over the life of the underlying reinsured policies. In conjunction with this change, we revised how reinsurance is reflected in estimated gross profits used for the amortization of unearned revenue reserves and DAC. The change represents a change in accounting estimate effected by a change in accounting principle and is included within our annual reviews and update of assumptions and other refinements. The change in accounting estimate reflected insights gained from revised cash flow modeling enabled by a systems conversion, which prompted the change to a preferable accounting method. We view this new methodology as preferable as we believe it better reflects the economics of our reinsurance transactions by aligning the results of our reinsurance activity more closely to the underlying direct insurance activity and by better reflecting the profit pattern of this business for purposes of the amortization of the balances noted above. See Note 2 to our Unaudited Interim Consolidated Financial Statements for more information.

For additional information on our policies for DAC and other costs and for the remaining critical accounting estimates listed above, see our Annual Report on Form 10-K for the year ended December 31, 2016, under "Management's Discussion and Analysis of Financial Condition and Results of Operations-Accounting Policies & Pronouncements-Application of Critical Accounting Estimates".

## **Adoption of New Accounting Pronouncements**

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

## **Changes in Financial Position**

### **September 30, 2017 versus December 31, 2016**

Total assets increased \$1,400 million, from \$16,848 million at December 31, 2016 to \$18,248 million at September 30, 2017. Significant components were:

- Separate account assets increased \$1,207 million primarily driven by market appreciation and net flows, partially offset by policy charges.
- Reinsurance recoverables increased \$148 million. The change was primarily driven by an increase in reserves due to universal and term life business growth.
- Total investments increased \$48 million primarily driven by continued business growth of universal and term life, and unrealized investment gains, due to a decline in rates.

Total liabilities increased \$1,456 million, from \$16,341 million at December 31, 2016 to \$17,797 million at September 30, 2017. Significant components were:

- Separate account liabilities increased \$1,207 million, corresponding to the increase in separate account assets described above.
- Future policy benefits increased \$119 million primarily due to universal and term life business growth, as discussed above.
- Policyholders' account balances increased \$107 million primarily driven by universal life business growth.

Total equity decreased \$57 million from \$507 million at December 31, 2016 to \$450 million at September 30, 2017, primarily driven by a return of capital partially offset by after-tax income and unrealized investment gains, due to a decline in rates.

## **Results of Operations**

### **Income (loss) from Operations before Income Taxes**

#### ***2017 to 2016 Three Months Comparison.***

Income from operations before income taxes decreased \$5 million from \$13 million in the third quarter of 2016 to \$8 million in the third quarter of 2017. This was primarily driven by lower non-coupon investments.

#### ***2017 to 2016 Nine Months Comparison.***

Income from operations before income taxes decreased \$68 million from \$89 million in the first nine months of 2016 to \$21 million in the first nine months of 2017. This was primarily driven by an unfavorable variance of \$132 million from the recapture of the living benefit guarantees from Pruco Re, and subsequent ceding of the variable annuities business to Prudential Insurance as part of the Variable Annuities Recapture in the second quarter of 2016. Net fee income decreased \$35 million, driven by the Variable Annuities Recapture. This was partially offset by the amortization of DAC and other costs, which resulted in a favorable variance of \$66 million, driven by higher amortization due to NPR gains in the first quarter of 2016 primarily due to declining rates, and a favorable variance of \$38 million driven by the results of our non-reinsured living benefit guarantees.

## **Revenues, Benefits and Expenses**

### ***2017 to 2016 Three Months Comparison***

Revenues decreased \$8 million from \$33 million in the third quarter of 2016 to \$25 million in the third quarter of 2017, primarily driven by lower net investment income resulting from lower non-coupon investments, as discussed above.

Benefits and expenses decreased \$3 million from \$20 million in the third quarter of 2016 to \$17 million in the third quarter of 2017, primarily driven by favorable mortality expense.

### ***2017 to 2016 Nine Months Comparison.***

Revenues decreased \$99 million from \$188 million in the first nine months of 2016 to \$89 million in the first nine months of 2017, primarily driven by the unfavorable variance of \$104 million in realized investments gains (losses) due to the Variable Annuities Recapture as discussed above. Also contributing to the decrease, was a decline in policy charges and fee income and asset administration fees of \$34 million primarily due to the ceding of the annuities business, as described above and \$7 million decrease in net investment income primary driven by lower non-coupon investments. This was partially offset by \$44 million increase in premiums due to consideration paid for the Variable Annuities Recapture, as discussed above.

Benefits and expenses decreased \$32 million from \$100 million in the first nine months of 2016 to \$68 million in the first nine months of 2017, primarily driven by a favorable variance of \$50 million in amortization of deferred policy acquisition costs and interest credited to policyholders' account balances primarily driven by higher amortization due to NPR gains in the first quarter of 2016 primarily due to declining rates. Partially offsetting the above, was an increase in policyholders' benefits of \$10 million and an increase of \$8 million in general, administrative and other expenses primarily driven by the Variable Annuities Recapture as described above.

### ***Variable Annuity Risks and Risk Mitigants***

The following is a summary of: (i) the risks associated with Individual Annuities' products; (ii) our strategies in mitigating those risks, including any updates to those strategies since the previous year end; and (iii) the related financial results. For a more detailed description of these items and their related accounting treatment, refer to the complete descriptions provided in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

### ***Product Design Features***

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

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

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

The valuation of the economic liability that Prudential Insurance seeks to defray excludes certain items that are included within the U.S. GAAP liability, such as NPR (in order to maximize protection irrespective of the possibility of default), as well as risk margins (required by U.S. GAAP but different from our best estimate) and valuation methodology differences. Since the ALM strategy is conducted in Prudential Insurance, the results of the strategy do not directly impact the Company's results of operations or financial condition.

The change in hedge strategy, as described above in the Variable Annuities Recapture, had no impact on how we value or account for the living benefit guarantees under U.S. GAAP.

## **Income Taxes**

The Company uses a full year projected effective tax rate approach to calculate year-to-date taxes. In addition, certain items impacting total income tax expense are recorded in the periods in which they occur. The projected effective tax rate is the ratio of projected “Total income tax expense” divided by projected “Income from operations before income taxes.”

Our income tax provision amounted to an income tax benefit of \$5.3 million, or (25.8)% of income from operations before income taxes in the first nine months of 2017, compared to an income tax expense of \$12.3 million, or 15.0% of income from operations before income taxes in the first nine months of 2016. The Company's current and prior effective tax rates differed from the U.S. statutory rate of 35% primarily due to non-taxable investment income, tax credits, and domestic production activities deduction.

## **Liquidity and Capital Resources**

This section supplements and should be read in conjunction with “Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources” included in our Annual Report on Form 10-K for the year ended December 31, 2016.

### **Overview**

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

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

Prudential Financial is a Designated Financial Company under Dodd-Frank. As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the Federal Reserve Bank of Boston and to stricter prudential regulatory standards, which include or will include requirements and limitations (many of which are the subject of ongoing rule-making) relating to capital, leverage, liquidity, stress-testing, overall risk management, resolution and recovery plans, credit exposure reporting, early remediation, management interlocks, and credit concentration. They may also include standards regarding enhanced public disclosure, short-term debt limits, and other related subjects. In addition, the Financial Stability Board has identified Prudential Financial as a global systemically important insurer (“G-SII”). For information on these regulatory initiatives and their potential impact on us, see “Regulatory Developments” above and “Business-Regulation” and “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Through March 31, 2016, the Company reinsured the majority of its variable annuity living benefit guarantees to affiliated companies, Pruco Re and Pruco Life, in order to facilitate the capital markets hedging program for these living benefit guarantees. Effective April 1, 2016, the Company recaptured the risks related to its variable annuity living benefit guarantees that were previously reinsured to Pruco Re and Pruco Life. In addition, the Company reinsured the variable annuity base contracts, along with the living benefit guarantees, to Prudential Insurance.

## **Capital**

Our capital management framework is primarily based on statutory RBC measures. The RBC ratio is a primary measure of the capital adequacy of the Company. RBC is calculated based on statutory financial statements and risk formulas consistent with the practices of the NAIC. RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer’s products and liabilities, interest rate risks and general business risks. RBC ratio calculations are intended to assist insurance regulators in measuring an insurer’s solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities, but is available to the public. The RBC ratio is an annual calculation; however, as of September 30, 2017 we estimate that the Company’s RBC ratio exceeds the minimum level required by applicable insurance regulations.

The regulatory capital level of the Company can be materially impacted by interest rate and equity market fluctuations, changes in the values of derivatives, the level of impairments recorded, credit quality migration of the investment portfolio, and business growth, among other items. In addition, the reinsurance of business or the recapture of business subject to reinsurance arrangements could negatively impact regulatory capital levels. The Company’s regulatory capital level is also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator.

### *Capital Protection Framework*

Prudential Financial and the Company employ a Capital Protection Framework (the “Framework”) to ensure that sufficient capital resources are available to maintain adequate capitalization and competitive RBC ratios and solvency margins under various stress scenarios. The Framework incorporates the potential impacts from market related stresses, including equity markets, real estate, interest rates, and credit losses.

The Framework accommodates periodic volatility within ranges that are deemed acceptable, while also providing for additional potential sources of capital, including on-balance sheet capital, derivatives, and contingent sources of capital. We believe we currently have access to sufficient resources, either directly, or indirectly through Prudential Financial, to maintain adequate capitalization and a competitive RBC ratio under a range of potential stress scenarios.

### *Affiliated Captive Reinsurance Companies*

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Capital-Affiliated Captive Reinsurance Companies” included in our Annual Report on Form 10-K for the year ended December 31, 2016 for a discussion of our use of captive reinsurance companies.

Through March 31, 2016, the Company reinsured the majority of its variable annuity living benefit guarantees to an affiliated company, Pruco Re, in order to facilitate the capital markets hedging program for these living benefit guarantees. Effective April 1, 2016, we recaptured the risks related to our variable annuity living benefit guarantees that were previously reinsured to Pruco Re and Pruco Life, as discussed above, in the Variable Annuities Recapture.

## **Liquidity**

Our liquidity is managed to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity is provided by a variety of sources, as described more fully below, including portfolios of liquid assets. Our investment portfolios are integral to the overall liquidity of the Company. We use a projection process for cash flows from operations to ensure sufficient liquidity to meet projected cash outflows, including claims. The impact of Prudential Funding, LLC's, or Prudential Funding, a wholly-owned subsidiary of Prudential Insurance, financing capacity on liquidity (as described below) is considered in the internal liquidity measures of the Company.

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

### *Cash Flow*

The principal sources of the Company's liquidity are premiums and certain annuity considerations, investment and fee income, investment maturities and sales as well as internal borrowings. The principal uses of that liquidity include benefits, claims, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity may include commissions, general and administrative expenses, purchases of investments, the payment of dividends to the parent company, hedging and reinsurance activity and payments in connection with financing activities.

### *Liquid Assets*

Liquid assets include cash and cash equivalents, short-term investments, fixed maturities that are not designated as held-to-maturity and public equity securities. As of September 30, 2017 and December 31, 2016 the Company had liquid assets of \$1,298 million and \$1,227 million, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$43 million and \$68 million as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, \$1,166 million, or 94%, of the fixed maturity investments in Company general account portfolios were rated high or highest quality based on NAIC or equivalent rating. The remaining \$72 million, or 6%, of these fixed maturity investments were rated other than high or highest quality.

Prudential Financial and Prudential Funding, borrow funds in the capital markets primarily through the direct issuance of commercial paper. The borrowings serve as an additional source of financing to meet our working capital needs. Prudential Funding operates under a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding's positive tangible net worth at all times.

Affiliated captive reinsurance companies are used to finance the portion of the statutory reserves required to be held under Regulation XXX and Guideline AXXX that is considered non-economic. The financing arrangements involve term and universal life business we reinsure to our affiliated captive reinsurers. The surplus notes issued by those affiliated captives are treated as capital for statutory purposes. As of September 30, 2017, our affiliated captive reinsurance companies have entered into agreements with external counterparties providing for the issuance of up to \$10.15 billion of surplus notes in return for the receipt of credit-linked notes ("Credit-Linked Note Structures"). Under the agreements, the affiliated captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding. The affiliated captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. As of September 30, 2017, an aggregate of \$8.84 billion of surplus notes was outstanding under our affiliated captives' Credit-Linked Note Structures, reflecting an increase of \$1.08 billion from December 31, 2016.

As of September 30, 2017, our affiliated captive reinsurance companies had outstanding an aggregate of \$2.8 billion of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$0.9 billion relates to Regulation XXX reserves and approximately \$1.9 billion relates to Guideline AXXX reserves, and all of which was issued directly by or guaranteed by Prudential Financial. Under certain of the financing arrangements pursuant to which this debt was issued, Prudential Financial has agreed to make capital contributions to the applicable affiliated captive reinsurance company to reimburse it for investment losses or to maintain its capital above prescribed minimum levels. In addition, as of September 30, 2017, for purposes of financing Guideline AXXX reserves, our affiliated captives had outstanding approximately \$4.0 billion of surplus notes that were issued to Prudential Financial in exchange for promissory notes of affiliates guaranteed by Prudential Financial.

The NAIC's actuarial guideline known as "AG 48" requires us to hold cash and rated securities in greater amounts than we previously held to support economic reserves for certain of our term and universal life policies reinsured to a captive. The additional asset requirement as of December 31, 2015, was approximately \$400 million and the requirement as of December 31, 2016 was an additional \$600 million, for a total additional asset requirement of approximately \$1.0 billion. The additional asset requirement of \$1.0 billion was funded using a combination of existing assets and newly purchased assets sourced from affiliated financing. We believe our affiliated captive reinsurance companies have sufficient internal and affiliated resources to satisfy the additional asset requirement through 2017.

In June 2016, the NAIC adopted a recommendation that will activate a principles-based reserving approach for life insurance products. At the Company's discretion, it may be applied to new individual life insurance business beginning as early as January 1, 2017, and must be applied for all new individual life insurance business issued January 1, 2020 and later. During 2017, we introduced updated versions of our guaranteed universal life products and adopted principles-based reserving for these products. The updated products are expected to support the principles-based statutory reserve level without the need for captive reserve financing or additional assets under AG 48. The Company is continuing to assess the impact of this new reserving approach on projected statutory reserve levels and product pricing for its remaining portfolio of individual life product offerings.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. As of September 30, 2017, there have been no material changes in our economic exposure to market risk from December 31, 2016, a description of which may be found in our Annual Report on Form 10-K for the year ended December 31, 2016, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," filed with the SEC. See Item 1A, "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2016, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

### **Item 4. Controls and Procedures**

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company's management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities Exchange Act of 1934, as amended ("Exchange Act") Rule 13a-15(e), as of September 30, 2017. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2017, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended September 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### **Item 1. Legal Proceedings**

See Note 6 to the Unaudited Interim Consolidated Financial Statements under “—Litigation and Regulatory Matters” for a description of certain pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, which is incorporated herein by reference.

### **Item 1A. Risk Factors**

You should carefully consider the risks described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016. These risks could materially affect our business, results of operations or financial condition or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “Forward-Looking Statements” above and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.

**Item 6. Exhibits**

**EXHIBIT INDEX**

[31.1 Section 302 Certification of the Chief Executive Officer](#)

[31.2 Section 302 Certification of the Chief Financial Officer](#)

[32.1 Section 906 Certification of the Chief Executive Officer](#)

[32.2 Section 906 Certification of the Chief Financial Officer](#)

101.INS - XBRL Instance Document

101.SCH - XBRL Taxonomy Extension Schema Document.

101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB - XBRL Taxonomy Extension Label Linkbase Document

101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF - XBRL Taxonomy Extension Definition Linkbase Document

**SIGNATURES**

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

Pruco Life Insurance Company of New Jersey

By: /s/ John Chieffo  
Name: John Chieffo  
Vice President and Chief Financial Officer  
(Authorized Signatory and Principal Financial Officer)

Date: November 9, 2017

## CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Lori D. Fouché, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pruco Life Insurance Company of New Jersey;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2017

/s/ Lori D. Fouché

Lori D. Fouché

President and Chief Executive Officer

## CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, John Chieffo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pruco Life Insurance Company of New Jersey;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2017

/s/ John Chieffo

John Chieffo

Vice President and Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER**

Pursuant to 18 U.S.C. § 1350, I, Lori D. Fouché, President and Chief Executive Officer of Pruco Life Insurance Company of New Jersey (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2017

/s/ Lori D. Fouché

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Lori D. Fouché

President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER**

Pursuant to 18 U.S.C. § 1350, I, John Chieffo, Vice President and Chief Financial Officer of Pruco Life Insurance Company of New Jersey (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2017

/s/ John Chieffo

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John Chieffo

Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.