

**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 March 31, 2018**

OR

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

**For the Transition Period from                      to**

**Commission file number 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 May 10, 2018, 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 and its subsidiary. There can be no assurance that future developments affecting Pruco Life Insurance Company of New Jersey and its subsidiary will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) losses on investments or financial contracts due to deterioration in credit quality or value, or counterparty default; (2) losses on insurance products due to mortality experience or policyholder behavior experience that differs significantly from our expectations when we price our products; (3) changes in interest rates and equity prices that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (4) guarantees within certain of our products, in particular our variable annuities, which are market sensitive and may decrease our earnings or increase the volatility of our results of operations or financial position; (5) liquidity needs resulting from (a) derivative collateral market exposure, (b) asset/liability mismatches, (c) the lack of available funding in the financial markets or (d) unexpected cash demands due to severe mortality calamity or lapse events; (6) financial or customer losses, or regulatory and legal actions, due to inadequate or failed processes or systems, human error or misconduct, and external events, such as (a) disruption of our systems and data, (b) an information security breach, (c) a failure to protect the privacy of sensitive data or (d) reliance on third-parties, including to distribute our products; (7) changes in the regulatory landscape, including related to (a) regulation under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (b) changes in tax laws, (c) the U.S. Department of Labor's fiduciary rules and other fiduciary rule developments, (d) state insurance laws and developments regarding group-wide supervision, capital and reserves, and (e) privacy and cybersecurity regulation; (8) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (9) ratings downgrades; (10) market conditions that may adversely affect the sales or persistency of our products; (11) competition; and (12) reputational damage. 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, 2017 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** **March 31, 2018 and December 31, 2017 (in thousands, except share amounts)**

|                                                                                                                                    | March 31, 2018       | December 31, 2017    |
|------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                      |                      |                      |
| Fixed maturities, available for sale, at fair value (amortized cost: 2018—\$1,249,609; 2017—\$1,204,166)                           | \$ 1,273,391         | \$ 1,261,237         |
| Fixed maturities, trading, at fair value (amortized cost: 2018—\$7,446; 2017—\$7,446) (1)                                          | 6,722                | 6,643                |
| Equity securities, at fair value (cost: 2018—\$10,114; 2017—\$8,114) (1)                                                           | 12,406               | 10,842               |
| Policy loans                                                                                                                       | 195,683              | 193,244              |
| Commercial mortgage and other loans                                                                                                | 123,147              | 121,796              |
| Other invested assets (includes \$2,728 and \$726 measured at fair value at March 31, 2018 and December 31, 2017, respectively)(1) | 48,704               | 46,803               |
| Total investments                                                                                                                  | 1,660,053            | 1,640,565            |
| Cash and cash equivalents                                                                                                          | 25,818               | 44,618               |
| Deferred policy acquisition costs                                                                                                  | 149,205              | 145,451              |
| Accrued investment income                                                                                                          | 17,218               | 16,580               |
| Reinsurance recoverables                                                                                                           | 2,416,708            | 2,480,848            |
| Receivables from parent and affiliates                                                                                             | 41,148               | 43,051               |
| Income taxes receivable                                                                                                            | 6,698                | 0                    |
| Other assets                                                                                                                       | 26,836               | 27,328               |
| Separate account assets                                                                                                            | 14,119,469           | 14,245,159           |
| <b>TOTAL ASSETS</b>                                                                                                                | <b>\$ 18,463,153</b> | <b>\$ 18,643,600</b> |
| <b>LIABILITIES AND EQUITY</b>                                                                                                      |                      |                      |
| <b>LIABILITIES</b>                                                                                                                 |                      |                      |
| Policyholders' account balances                                                                                                    | \$ 2,137,306         | \$ 2,083,582         |
| Future policy benefits                                                                                                             | 1,619,803            | 1,707,184            |
| Cash collateral for loaned securities                                                                                              | 4,337                | 15,208               |
| Income taxes payable                                                                                                               | 0                    | 241                  |
| Short-term debt to affiliates                                                                                                      | 80                   | 0                    |
| Payables to parent and affiliates                                                                                                  | 26,837               | 22,236               |
| Other liabilities                                                                                                                  | 106,514              | 103,632              |
| Separate account liabilities                                                                                                       | 14,119,469           | 14,245,159           |
| <b>TOTAL LIABILITIES</b>                                                                                                           | <b>18,014,346</b>    | <b>18,177,242</b>    |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 10)</b>                                                                        |                      |                      |
| <b>EQUITY</b>                                                                                                                      |                      |                      |
| Common stock (\$5 par value; 400,000 shares authorized, issued and outstanding)                                                    | 2,000                | 2,000                |
| Additional paid-in capital                                                                                                         | 213,261              | 211,961              |
| Retained earnings                                                                                                                  | 222,566              | 218,067              |
| Accumulated other comprehensive income                                                                                             | 10,980               | 34,330               |
| <b>TOTAL EQUITY</b>                                                                                                                | <b>448,807</b>       | <b>466,358</b>       |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                                                                | <b>\$ 18,463,153</b> | <b>\$ 18,643,600</b> |

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

**See Notes to Unaudited Interim Consolidated Financial Statements**

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**Three Months Ended March 31, 2018 and 2017 (in thousands)**

|                                                                                 | <b>Three Months Ended March 31,</b> |             |
|---------------------------------------------------------------------------------|-------------------------------------|-------------|
|                                                                                 | <b>2018</b>                         | <b>2017</b> |
| <b>REVENUES</b>                                                                 |                                     |             |
| Premiums                                                                        | \$ 2,497                            | \$ 2,183    |
| Policy charges and fee income                                                   | 24,814                              | 18,376      |
| Net investment income                                                           | 16,549                              | 16,472      |
| Asset administration fees                                                       | 1,306                               | 2,192       |
| Other income                                                                    | 371                                 | 1,591       |
| Realized investment gains (losses), net:                                        |                                     |             |
| Other-than-temporary impairments on fixed maturity securities                   | 0                                   | (80)        |
| Other realized investment gains (losses), net                                   | (3,931)                             | (3,492)     |
| Total realized investment gains (losses), net                                   | (3,931)                             | (3,572)     |
| <b>TOTAL REVENUES</b>                                                           | 41,606                              | 37,242      |
| <b>BENEFITS AND EXPENSES</b>                                                    |                                     |             |
| Policyholders' benefits                                                         | 8,552                               | 12,379      |
| Interest credited to policyholders' account balances                            | 8,564                               | 7,821       |
| Amortization of deferred policy acquisition costs                               | 5,967                               | 2,003       |
| General, administrative and other expenses                                      | 7,756                               | 8,433       |
| <b>TOTAL BENEFITS AND EXPENSES</b>                                              | 30,839                              | 30,636      |
| <b>INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES</b>                        | 10,767                              | 6,606       |
| Income tax expense (benefit)                                                    | 747                                 | 450         |
| <b>NET INCOME (LOSS)</b>                                                        | \$ 10,020                           | \$ 6,156    |
| Other comprehensive income (loss), before tax:                                  |                                     |             |
| Foreign currency translation adjustments                                        | (235)                               | 4           |
| Net unrealized investment gains (losses)                                        | (36,561)                            | 6,192       |
| Total                                                                           | (36,796)                            | 6,196       |
| Less: Income tax expense (benefit) related to other comprehensive income (loss) | (7,728)                             | 2,168       |
| Other comprehensive income (loss), net of tax                                   | (29,068)                            | 4,028       |
| <b>COMPREHENSIVE INCOME (LOSS)</b>                                              | \$ (19,048)                         | \$ 10,184   |

See Notes to Unaudited Interim Consolidated Financial Statements

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**

**Unaudited Interim Consolidated Statements of Equity**  
**Three Months Ended March 31, 2018 and 2017 (in thousands)**

|                                               | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Equity</u> |
|-----------------------------------------------|---------------------|-----------------------------------|--------------------------|------------------------------------------------------|---------------------|
| <b>Balance, December 31, 2017</b>             | \$ 2,000            | \$ 211,961                        | \$ 218,067               | \$ 34,330                                            | \$ 466,358          |
| Cumulative effect of adoption of ASU 2016-01  |                     |                                   | 372                      | (175)                                                | 197                 |
| Cumulative effect of adoption of ASU 2018-02  |                     |                                   | (5,893)                  | 5,893                                                | 0                   |
| Contributed capital                           |                     | 1,300                             |                          |                                                      | 1,300               |
| Comprehensive income (loss):                  |                     |                                   |                          |                                                      |                     |
| Net income (loss)                             |                     |                                   | 10,020                   |                                                      | 10,020              |
| Other comprehensive income (loss), net of tax |                     |                                   |                          | (29,068)                                             | (29,068)            |
| Total comprehensive income (loss)             |                     |                                   |                          |                                                      | (19,048)            |
| <b>Balance, March 31, 2018</b>                | <u>\$ 2,000</u>     | <u>\$ 213,261</u>                 | <u>\$ 222,566</u>        | <u>\$ 10,980</u>                                     | <u>\$ 448,807</u>   |

  

|                                               | <u>Common Stock</u> | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> | <u>Total Equity</u> |
|-----------------------------------------------|---------------------|-----------------------------------|--------------------------|------------------------------------------------------|---------------------|
| <b>Balance, December 31, 2016</b>             | \$ 2,000            | \$ 209,786                        | \$ 282,810               | \$ 12,161                                            | \$ 506,757          |
| Contributed capital                           |                     | 1,300                             |                          |                                                      | 1,300               |
| Comprehensive income (loss):                  |                     |                                   |                          |                                                      |                     |
| Net income (loss)                             |                     |                                   | 6,156                    |                                                      | 6,156               |
| Other comprehensive income (loss), net of tax |                     |                                   |                          | 4,028                                                | 4,028               |
| Total comprehensive income (loss)             |                     |                                   |                          |                                                      | 10,184              |
| <b>Balance, March 31, 2017</b>                | <u>\$ 2,000</u>     | <u>\$ 211,086</u>                 | <u>\$ 288,966</u>        | <u>\$ 16,189</u>                                     | <u>\$ 518,241</u>   |

See Notes to Unaudited Interim Consolidated Financial Statements

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
**Three Months Ended March 31, 2018 and 2017 (in thousands)**

|                                                                                                    | 2018            | 2017            |
|----------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                       |                 |                 |
| Net income (loss)                                                                                  | \$ 10,020       | \$ 6,156        |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                 |                 |
| Policy charges and fee income                                                                      | (7,442)         | 1,342           |
| Interest credited to policyholders' account balances                                               | 8,564           | 7,821           |
| Realized investment (gains) losses, net                                                            | 3,931           | 3,572           |
| Amortization and other non-cash items                                                              | (1,429)         | (1,693)         |
| Change in:                                                                                         |                 |                 |
| Future policy benefits                                                                             | 56,784          | 65,666          |
| Reinsurance recoverables                                                                           | (47,524)        | (53,215)        |
| Accrued investment income                                                                          | (638)           | (57)            |
| Net payables to/receivables from parent and affiliates                                             | 3,099           | 4,625           |
| Deferred policy acquisition costs                                                                  | (1,751)         | (3,389)         |
| Income taxes                                                                                       | 735             | 438             |
| Derivatives, net                                                                                   | (3,711)         | 899             |
| Other, net                                                                                         | (1,824)         | (12,474)        |
| <b>Cash flows from (used in) operating activities</b>                                              | <b>18,814</b>   | <b>19,691</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                       |                 |                 |
| Proceeds from the sale/maturity/prepayment of:                                                     |                 |                 |
| Fixed maturities, available-for-sale                                                               | 8,045           | 83,171          |
| Equity securities (1)                                                                              | 0               | 5               |
| Policy loans                                                                                       | 5,710           | 5,749           |
| Ceded policy loans                                                                                 | (286)           | (505)           |
| Short-term investments                                                                             | 0               | 11,000          |
| Commercial mortgage and other loans                                                                | 597             | 3,606           |
| Other invested assets (1)                                                                          | 179             | 504             |
| Payments for the purchase/origination of:                                                          |                 |                 |
| Fixed maturities, available-for-sale                                                               | (49,327)        | (107,609)       |
| Equity securities (1)                                                                              | (2,000)         | (2,000)         |
| Policy loans                                                                                       | (6,450)         | (4,627)         |
| Ceded policy loans                                                                                 | 643             | 538             |
| Short-term investments                                                                             | 0               | (16,979)        |
| Commercial mortgage and other loans                                                                | (1,595)         | (4,960)         |
| Other invested assets (1)                                                                          | (1,265)         | (662)           |
| Notes receivable from parent and affiliates, net                                                   | 155             | 111             |
| Derivatives, net                                                                                   | (90)            | (41)            |
| Other, net                                                                                         | (139)           | 0               |
| <b>Cash flows from (used in) investing activities</b>                                              | <b>(45,823)</b> | <b>(32,699)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                       |                 |                 |
| Policyholders' account deposits                                                                    | 123,760         | 113,019         |
| Ceded policyholders' account deposits                                                              | (81,829)        | (83,573)        |
| Policyholders' account withdrawals                                                                 | (62,539)        | (51,160)        |

|                                                                                                       |                  |                  |
|-------------------------------------------------------------------------------------------------------|------------------|------------------|
| Ceded policyholders' account withdrawals                                                              | 39,776           | 34,152           |
| Net change in securities sold under agreement to repurchase and cash collateral for loaned securities | (10,870)         | (7,724)          |
| Net change in financing arrangements (maturities 90 days or less)                                     | 80               | 500              |
| Drafts outstanding                                                                                    | (169)            | (1,336)          |
| <b>Cash flows from (used in) financing activities</b>                                                 | <b>8,209</b>     | <b>3,878</b>     |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                           | <b>(18,800)</b>  | <b>(9,130)</b>   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                                   | <b>44,618</b>    | <b>56,984</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                                                       | <b>\$ 25,818</b> | <b>\$ 47,854</b> |

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

**Significant Non-Cash Transactions**

There were no significant non-cash transactions for the three months ended March 31, 2018 and 2017.

**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.

#### *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. 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".

#### *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, 2017.

#### *Use of Estimates*

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

The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; amortization of deferred sales inducements; 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 and regulatory matters.

#### *Reclassifications*

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS**

***Recent Accounting Pronouncements***

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

**Adoption of ASU 2016-01**

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

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

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

Because of the fundamental accounting changes as described in section "(3) Changes to Accounting Policies" below, the Company determined that changes to the presentation of certain balances in the investment section of the Company's Consolidated Statements of Financial Position were also necessary to maintain clarity and logical presentation. The table below illustrates these changes by presenting the balances as previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and the reclassifications that were made, along with a footnote explanation of each reclassification.

| <b>Consolidated Statements of Financial Position Line Items</b> | <b>December 31, 2017</b>      |                          |                       |             |                              |
|-----------------------------------------------------------------|-------------------------------|--------------------------|-----------------------|-------------|------------------------------|
|                                                                 | <b>As previously reported</b> | <b>Reclassifications</b> |                       |             | <b>As currently reported</b> |
|                                                                 |                               | <b>(1)</b>               | <b>(2)</b>            | <b>(3)</b>  |                              |
|                                                                 |                               |                          | <b>(in thousands)</b> |             |                              |
| Fixed maturities, available-for-sale, at fair value             | \$ 1,261,237                  |                          |                       |             | \$ 1,261,237                 |
| *Fixed maturities, trading, at fair value                       | 0                             |                          | 6,643                 |             | 6,643                        |
| <del>Equity securities, available-for-sale, at fair value</del> | 3,414                         | (3,414)                  |                       |             | 0                            |
| *Equity securities, at fair value                               | 0                             | 3,414                    | 7,428                 |             | 10,842                       |
| <del>Trading account assets, at fair value</del>                | 14,071                        |                          | (14,071)              |             | 0                            |
| Policy loans                                                    | 193,244                       |                          |                       |             | 193,244                      |
| Short-term investments                                          | 0                             |                          |                       |             | 0                            |
| Commercial mortgage and other loans                             | 121,796                       |                          |                       |             | 121,796                      |
| <del>Other long-term investments</del>                          | 46,803                        |                          |                       | (46,803)    | 0                            |
| *Other invested assets                                          | 0                             |                          |                       | 46,803      | 46,803                       |
| Total investments                                               | <u>\$ 1,640,565</u>           | <u>\$ 0</u>              | <u>\$ 0</u>           | <u>\$ 0</u> | <u>\$ 1,640,565</u>          |

\* - New line item effective January 1, 2018.

~~Strikethrough~~ - Eliminated line item effective January 1, 2018.

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

(2) Eliminated the line item "Trading account assets, at fair value" and reclassified each component to another line item.

(3) Retitled "Other long-term investments" to "Other invested assets".

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

*(2) Cumulative-effect Adjustment Upon Adoption*

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

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

| (in thousands)                                |    | Increase / (Decrease) |
|-----------------------------------------------|----|-----------------------|
| Other invested assets                         | \$ | 250                   |
| <b>Total assets</b>                           | \$ | 250                   |
| Income taxes                                  | \$ | 53                    |
| <b>Total liabilities</b>                      |    | 53                    |
| Accumulated other comprehensive income (loss) |    | (175)                 |
| Retained earnings                             |    | 372                   |
| <b>Total equity</b>                           |    | 197                   |
| <b>Total liabilities and equity</b>           | \$ | 250                   |

*(3) Changes to Accounting Policies*

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

**ASSETS**

**Fixed maturities, trading** is a new financial statement line item comprised of fixed maturities that are carried at fair value. Prior to the adoption of the standard, these fixed maturities were reported in "Trading account assets, at fair value". Realized and unrealized gains and losses on these investments are reported in "Other income", and interest and dividend income from these investments is reported in "Net investment income".

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

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

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

**REVENUES AND BENEFITS AND EXPENSES**

**Other income** includes realized and unrealized gains or losses from investments reported as “Fixed maturities, trading”, “Equity securities, at fair value”, and “Other invested assets” that are measured at fair value.

*Other ASU adopted during the three months ended March 31, 2018.*

| Standard                                                                                                                                                            | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Effective date and method of adoption                                                                                                                                              | Effect on the financial statements or other significant matters                                                                                              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ASU 2014-09</b> , Revenue from Contracts with Customers (Topic 606)                                                                                              | The ASU is based on the core principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, and assets recognized from the costs to obtain or fulfill a contract with a customer. Revenue recognition for insurance contracts and financial instruments is explicitly scoped out of the standard. | January 1, 2018 using the modified retrospective method which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. | Adoption of the ASU did not have an impact 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).                                        | Adoption of the ASU did not 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>ASU 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).                                                                                                                                                                                   | Adoption of the ASU did not have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.                                                                                                                                                                                                                                               |
| <b>ASU 2018-02</b> , Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income | In February 2018, this ASU was issued following the enactment of the Tax Act of 2017. This ASU allows an entity to elect a reclassification from accumulated other comprehensive income to retained earnings for stranded effects resulting from the Tax Act of 2017.                                                                                                                                                                                                                                                                                                       | January 1, 2019 with early adoption permitted. The ASU should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act of 2017 is recognized. | The Company early adopted the ASU effective January 1, 2018 and elected to apply the ASU in the period of adoption subsequent to recording the adoption impacts of ASU 2016-01 as described above. As a result, the Company reclassified stranded effects resulting from the Tax Act of 2017 by increasing accumulated other comprehensive income and decreasing retained earnings, each by \$5.9 million. |

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

*ASU issued but not yet adopted as of March 31, 2018*

| Standard                                                                                                                                                                  | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Effective date and method of adoption                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Effect on the financial statements or other significant matters                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ASU 2016-13,</b><br>Financial Instruments-<br>Credit Losses (Topic<br>326):<br>Measurement of<br>Credit Losses on<br>Financial<br>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 which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption.<br>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.<br>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 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) which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption.                                                                                                                                                                                                                                                                                 | 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)**

| Standard                                                                                                                              | Description                                                                                                                                                                                   | Effective date and method of adoption                                                                                                                                                                              | Effect on the financial statements or other significant matters                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <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) which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. | The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. |

### 3. INVESTMENTS

#### *Fixed Maturity Securities*

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

|                                                                                      | March 31, 2018    |                              |                               |               |                    |
|--------------------------------------------------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|--------------------|
|                                                                                      | Amortized<br>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 | \$ 17,735         | \$ 1,161                     | \$ 0                          | \$ 18,896     | \$ 0               |
| Obligations of U.S. states and their political subdivisions                          | 121,163           | 3,166                        | 147                           | 124,182       | 0                  |
| Foreign government bonds                                                             | 58,055            | 107                          | 1,661                         | 56,501        | 0                  |
| Public utilities                                                                     | 204,138           | 8,511                        | 1,509                         | 211,140       | 0                  |
| All other U.S. public corporate securities                                           | 329,541           | 13,386                       | 5,184                         | 337,743       | (45)               |
| All other U.S. private corporate securities                                          | 174,882           | 2,150                        | 2,227                         | 174,805       | 0                  |
| All other foreign public corporate securities                                        | 48,802            | 1,318                        | 1,065                         | 49,055        | 0                  |
| All other foreign private corporate securities                                       | 142,131           | 7,071                        | 786                           | 148,416       | 0                  |
| Asset-backed securities(1)                                                           | 25,388            | 1,158                        | 0                             | 26,546        | (48)               |
| Commercial mortgage-backed securities                                                | 118,898           | 703                          | 3,113                         | 116,488       | 0                  |
| Residential mortgage-backed securities(2)                                            | 8,876             | 747                          | 4                             | 9,619         | (79)               |
| Total fixed maturities, available-for-sale                                           | \$ 1,249,609      | \$ 39,478                    | \$ 15,696                     | \$ 1,273,391  | \$ (172)           |

(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 unrealized losses remaining in AOCI, from the impairment measurement date. Amount excludes \$0.3 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, 2017 |                              |                               |               |                    |
|--------------------------------------------------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|--------------------|
|                                                                                      | Amortized<br>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 | \$ 17,831         | \$ 1,465                     | \$ 0                          | \$ 19,296     | \$ 0               |
| Obligations of U.S. states and their political subdivisions                          | 121,208           | 6,660                        | 0                             | 127,868       | 0                  |
| Foreign government bonds                                                             | 29,489            | 377                          | 161                           | 29,705        | 0                  |
| Public utilities                                                                     | 204,343           | 14,664                       | 409                           | 218,598       | 0                  |
| All other U.S. public corporate securities                                           | 331,641           | 23,732                       | 1,248                         | 354,125       | (45)               |
| All other U.S. private corporate securities                                          | 176,411           | 3,583                        | 609                           | 179,385       | 0                  |
| All other foreign public corporate securities                                        | 36,790            | 1,448                        | 557                           | 37,681        | 0                  |
| All other foreign private corporate securities                                       | 131,896           | 6,175                        | 859                           | 137,212       | 0                  |
| Asset-backed securities(1)                                                           | 26,539            | 1,275                        | 0                             | 27,814        | (51)               |
| Commercial mortgage-backed securities                                                | 118,818           | 1,883                        | 1,174                         | 119,527       | 0                  |
| Residential mortgage-backed securities(2)                                            | 9,200             | 826                          | 0                             | 10,026        | (85)               |
| Total fixed maturities, available-for-sale                                           | \$ 1,204,166      | \$ 62,088                    | \$ 5,017                      | \$ 1,261,237  | \$ (181)           |

(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 unrealized losses remaining in AOCI, from the impairment measurement date. Amount excludes \$0.3 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.

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

| March 31, 2018                                              |                               |          |                       |                               |            |                               |  |
|-------------------------------------------------------------|-------------------------------|----------|-----------------------|-------------------------------|------------|-------------------------------|--|
| Less Than Twelve Months                                     |                               |          | Twelve Months or More |                               | Total      |                               |  |
| Fair Value                                                  | Gross<br>Unrealized<br>Losses |          | Fair Value            | Gross<br>Unrealized<br>Losses | Fair Value | Gross<br>Unrealized<br>Losses |  |
| (in thousands)                                              |                               |          |                       |                               |            |                               |  |
| Fixed maturities, available-for-sale:                       |                               |          |                       |                               |            |                               |  |
| Obligations of U.S. states and their political subdivisions | \$ 15,462                     | \$ 147   | \$ 0                  | \$ 0                          | \$ 15,462  | \$ 147                        |  |
| Foreign government bonds                                    | 42,198                        | 1,368    | 6,006                 | 293                           | 48,204     | 1,661                         |  |
| Public utilities                                            | 44,875                        | 1,090    | 6,736                 | 419                           | 51,611     | 1,509                         |  |
| All other U.S. public corporate securities                  | 106,831                       | 2,570    | 41,781                | 2,614                         | 148,612    | 5,184                         |  |
| All other U.S. private corporate securities                 | 106,759                       | 1,789    | 10,119                | 438                           | 116,878    | 2,227                         |  |
| All other foreign public corporate securities               | 13,500                        | 340      | 6,782                 | 725                           | 20,282     | 1,065                         |  |
| All other foreign private corporate securities              | 20,282                        | 274      | 6,701                 | 512                           | 26,983     | 786                           |  |
| Asset-backed securities                                     | 310                           | 0        | 0                     | 0                             | 310        | 0                             |  |
| Commercial mortgage-backed securities                       | 29,429                        | 658      | 43,278                | 2,455                         | 72,707     | 3,113                         |  |
| Residential mortgage-backed securities                      | 284                           | 4        | 0                     | 0                             | 284        | 4                             |  |
| Total fixed maturities, available-for-sale                  | \$ 379,930                    | \$ 8,240 | \$ 121,403            | \$ 7,456                      | \$ 501,333 | \$ 15,696                     |  |

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

| December 31, 2017                                           |                         |                       |                         |                 |                         |
|-------------------------------------------------------------|-------------------------|-----------------------|-------------------------|-----------------|-------------------------|
| Less Than Twelve Months                                     |                         | Twelve Months or More |                         | Total           |                         |
| Fair Value                                                  | Gross Unrealized Losses | Fair Value            | Gross Unrealized Losses | Fair Value      | Gross Unrealized Losses |
| (in thousands)                                              |                         |                       |                         |                 |                         |
| <b>Fixed maturities, available-for-sale:</b>                |                         |                       |                         |                 |                         |
| Obligations of U.S. states and their political subdivisions | \$ 0                    | \$ 0                  | \$ 0                    | \$ 0            | \$ 0                    |
| Foreign government bonds                                    | 3,354                   | 42                    | 6,210                   | 119             | 9,564                   |
| Public utilities                                            | 8,797                   | 263                   | 7,014                   | 146             | 15,811                  |
| All other U.S. public corporate securities                  | 12,254                  | 93                    | 43,337                  | 1,155           | 55,591                  |
| All other U.S. private corporate securities                 | 38,778                  | 377                   | 10,401                  | 232             | 49,179                  |
| All other foreign public corporate securities               | 5,565                   | 27                    | 7,369                   | 530             | 12,934                  |
| All other foreign private corporate securities              | 8,671                   | 148                   | 11,333                  | 711             | 20,004                  |
| Asset-backed securities                                     | 0                       | 0                     | 0                       | 0               | 0                       |
| Commercial mortgage-backed securities                       | 12,774                  | 56                    | 44,627                  | 1,118           | 57,401                  |
| Residential mortgage-backed securities                      | 0                       | 0                     | 0                       | 0               | 0                       |
| Total fixed maturities, available-for-sale                  | <u>\$ 90,193</u>        | <u>\$ 1,006</u>       | <u>\$ 130,291</u>       | <u>\$ 4,011</u> | <u>\$ 220,484</u>       |

As of March 31, 2018 and December 31, 2017, the gross unrealized losses on fixed maturity securities were composed of \$14.5 million and \$4.2 million, respectively, related to "1" highest quality or "2" high quality securities based on the National Association of Insurance Commissioners ("NAIC") or equivalent rating and \$1.2 million and \$0.8 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of March 31, 2018, the \$7.5 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in commercial mortgage-backed securities and in the Company's corporate securities within the finance, transportation and foreign agencies sectors. As of December 31, 2017, the \$4.0 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in commercial mortgage-backed securities and in the Company's corporate securities within the finance and technology sectors. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, the Company concluded that an adjustment to earnings for OTTI for these fixed maturity securities was not warranted at either March 31, 2018 or December 31, 2017. These conclusions were based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to general credit spread widening, increases in interest rates and foreign currency exchange rate movements. As of March 31, 2018, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

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

| March 31, 2018                               |           |                  |                     |
|----------------------------------------------|-----------|------------------|---------------------|
|                                              |           | Amortized Cost   | Fair Value          |
| (in thousands)                               |           |                  |                     |
| <b>Fixed maturities, available-for-sale:</b> |           |                  |                     |
| Due in one year or less                      | \$        | 41,686           | \$ 42,307           |
| Due after one year through five years        |           | 175,492          | 177,781             |
| Due after five years through ten years       |           | 301,455          | 301,049             |
| Due after ten years                          |           | 577,814          | 599,601             |
| Asset-backed securities                      |           | 25,388           | 26,546              |
| Commercial mortgage-backed securities        |           | 118,898          | 116,488             |
| Residential mortgage-backed securities       |           | 8,876            | 9,619               |
| Total fixed maturities, available-for-sale   | <u>\$</u> | <u>1,249,609</u> | <u>\$ 1,273,391</u> |

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

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

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

|                                                   | Three Months Ended March 31, |           |
|---------------------------------------------------|------------------------------|-----------|
|                                                   | 2018                         | 2017      |
|                                                   | (in thousands)               |           |
| <b>Fixed maturities, available-for-sale:</b>      |                              |           |
| Proceeds from sales(1)                            | \$ 0                         | \$ 63,526 |
| Proceeds from maturities/prepayments              | 8,801                        | 31,638    |
| Gross investment gains from sales and maturities  | 2                            | 343       |
| Gross investment losses from sales and maturities | 0                            | (807)     |
| OTTI recognized in earnings(2)                    | 0                            | (80)      |

(1) Includes \$0.8 million and \$12.0 million of non-cash related proceeds due to the timing of trade settlements for the three months ended March 31, 2018 and 2017, 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 a rollforward of pre-tax amounts remaining in OCI related to fixed maturity securities with credit loss impairments recognized in earnings, for the periods indicated:

|                                                                                                                      | Three Months Ended March 31, |        |
|----------------------------------------------------------------------------------------------------------------------|------------------------------|--------|
|                                                                                                                      | 2018                         | 2017   |
|                                                                                                                      | (in thousands)               |        |
| <b>Credit loss impairments:</b>                                                                                      |                              |        |
| Balance, beginning of period                                                                                         | \$ 561                       | \$ 563 |
| Increases due to the passage of time on previously recorded credit losses                                            | 11                           | 10     |
| Reductions for securities which matured, paid down, prepaid or were sold during the period                           | (12)                         | (7)    |
| Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected | 0                            | 0      |
| Assets transferred to parent and affiliates                                                                          | 0                            | 0      |
| Balance, end of period                                                                                               | \$ 560                       | \$ 566 |

**Equity Securities**

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within "Other income," was \$(0.4) million and \$0.7 million during the three months ended March 31, 2018 and 2017, respectively.

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

**Commercial Mortgage and Other Loans**

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

|                                                                              | March 31, 2018           |            | December 31, 2017        |            |
|------------------------------------------------------------------------------|--------------------------|------------|--------------------------|------------|
|                                                                              | 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                                                      | \$ 44,193                | 35.8%      | \$ 44,405                | 36.4%      |
| Hospitality                                                                  | 10,195                   | 8.3        | 10,263                   | 8.4        |
| Industrial                                                                   | 12,541                   | 10.2       | 10,924                   | 9.0        |
| Office                                                                       | 17,959                   | 14.6       | 17,738                   | 14.5       |
| Other                                                                        | 19,142                   | 15.5       | 19,154                   | 15.7       |
| Retail                                                                       | 14,096                   | 11.4       | 14,180                   | 11.6       |
| Total commercial mortgage loans                                              | 118,126                  | 95.8       | 116,664                  | 95.6       |
| Agricultural property loans                                                  | 5,209                    | 4.2        | 5,312                    | 4.4        |
| Total commercial mortgage and agricultural property loans by property type   | 123,335                  | 100.0%     | 121,976                  | 100.0%     |
| Valuation allowance                                                          | (188)                    |            | (180)                    |            |
| Total commercial mortgage and other loans                                    | \$ 123,147               |            | \$ 121,796               |            |

As of March 31, 2018, the commercial mortgage and agricultural property loans were geographically dispersed throughout the United States (with the largest concentrations in Illinois (16%), New York (13%) and Texas (10%)) and included loans secured by properties in Europe (8%).

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

|                                               | March 31, 2018               |                                |               |
|-----------------------------------------------|------------------------------|--------------------------------|---------------|
|                                               | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Total         |
|                                               | (in thousands)               |                                |               |
| Allowance for credit losses:                  |                              |                                |               |
| Balance, beginning of year                    | \$ 179                       | \$ 1                           | \$ 180        |
| Addition to (release of) allowance for losses | 8                            | 0                              | 8             |
| Charge-offs, net of recoveries                | 0                            | 0                              | 0             |
| Total ending balance                          | <u>\$ 187</u>                | <u>\$ 1</u>                    | <u>\$ 188</u> |
|                                               |                              |                                |               |
|                                               | December 31, 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 | (28)                         | (1)                            | (29)          |
| Charge-offs, net of recoveries                | 0                            | 0                              | 0             |
| Total ending balance                          | <u>\$ 179</u>                | <u>\$ 1</u>                    | <u>\$ 180</u> |

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

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:

|                                       | March 31, 2018               |                                |                   |
|---------------------------------------|------------------------------|--------------------------------|-------------------|
|                                       | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Total             |
|                                       | (in thousands)               |                                |                   |
| Allowance for credit losses:          |                              |                                |                   |
| Individually evaluated for impairment | \$ 0                         | \$ 0                           | \$ 0              |
| Collectively evaluated for impairment | 187                          | 1                              | 188               |
| Total ending balance(1)               | <u>\$ 187</u>                | <u>\$ 1</u>                    | <u>\$ 188</u>     |
| Recorded investment(2):               |                              |                                |                   |
| Individually evaluated for impairment | \$ 0                         | \$ 0                           | \$ 0              |
| Collectively evaluated for impairment | 118,126                      | 5,209                          | 123,335           |
| Total ending balance(1)               | <u>\$ 118,126</u>            | <u>\$ 5,209</u>                | <u>\$ 123,335</u> |

(1) As of March 31, 2018, there were no loans acquired with deteriorated credit quality.

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

|                                       | December 31, 2017            |                                |                   |
|---------------------------------------|------------------------------|--------------------------------|-------------------|
|                                       | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Total             |
|                                       | (in thousands)               |                                |                   |
| Allowance for credit losses:          |                              |                                |                   |
| Individually evaluated for impairment | \$ 0                         | \$ 0                           | \$ 0              |
| Collectively evaluated for impairment | 179                          | 1                              | 180               |
| Total ending balance(1)               | <u>\$ 179</u>                | <u>\$ 1</u>                    | <u>\$ 180</u>     |
| Recorded investment(2):               |                              |                                |                   |
| Individually evaluated for impairment | \$ 0                         | \$ 0                           | \$ 0              |
| Collectively evaluated for impairment | 116,664                      | 5,312                          | 121,976           |
| Total ending balance(1)               | <u>\$ 116,664</u>            | <u>\$ 5,312</u>                | <u>\$ 121,976</u> |

(1) As of December 31, 2017, 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:

|                      | March 31, 2018              |                |          |            |
|----------------------|-----------------------------|----------------|----------|------------|
|                      | Debt Service Coverage Ratio |                |          | Total      |
|                      | ≥ 1.2X                      | 1.0X to < 1.2X | < 1.0X   |            |
|                      | (in thousands)              |                |          |            |
| Loan-to-Value Ratio: |                             |                |          |            |
| 0%-59.99%            | \$ 82,979                   | \$ 1,267       | \$ 0     | \$ 84,246  |
| 60%-69.99%           | 27,908                      | 5,463          | 1,993    | 35,364     |
| 70%-79.99%           | 0                           | 3,725          | 0        | 3,725      |
| 80% or greater       | 0                           | 0              | 0        | 0          |
| Total loans          | \$ 110,887                  | \$ 10,455      | \$ 1,993 | \$ 123,335 |

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

| December 31, 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%                   | \$ 83,304  | \$ 0           | \$ 0     | \$ 83,304  |
| 60%-69.99%                  | 27,727     | 3,155          | 2,009    | 32,891     |
| 70%-79.99%                  | 0          | 5,781          | 0        | 5,781      |
| 80% or greater              | 0          | 0              | 0        | 0          |
| Total loans                 | \$ 111,031 | \$ 8,936       | \$ 2,009 | \$ 121,976 |

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:

|                             | March 31, 2018 |                     |                     |                             |             |                       |
|-----------------------------|----------------|---------------------|---------------------|-----------------------------|-------------|-----------------------|
|                             | 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   | \$ 118,126     | \$ 0                | \$ 0                | \$ 0                        | \$ 118,126  | \$ 0                  |
| Agricultural property loans | 5,209          | 0                   | 0                   | 0                           | 5,209       | 0                     |
| Total                       | \$ 123,335     | \$ 0                | \$ 0                | \$ 0                        | \$ 123,335  | \$ 0                  |

(1) As of March 31, 2018, 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, 2017.

|                             | December 31, 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   | \$ 116,664        | \$ 0                | \$ 0                | \$ 0                        | \$ 116,664  | \$ 0                  |
| Agricultural property loans | 5,312             | 0                   | 0                   | 0                           | 5,312       | 0                     |
| Total                       | \$ 121,976        | \$ 0                | \$ 0                | \$ 0                        | \$ 121,976  | \$ 0                  |

(1) As of December 31, 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, 2017.

For the three months ended March 31, 2018 and 2017, 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.

The Company's commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. For the three months ended March 31, 2018 and 2017, there were no new troubled debt restructurings related to commercial mortgage and other loans with payment defaults on commercial mortgage and other loans that were modified as a troubled debt restructuring within the twelve months preceding. As of both March 31, 2018 and December 31, 2017, 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, 2017.

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

**Other Invested Assets**

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

|                                           | March 31, 2018 | December 31, 2017 |
|-------------------------------------------|----------------|-------------------|
|                                           | (in thousands) |                   |
| Company's investment in separate accounts | \$ 2,866       | \$ 2,726          |
| LPs/LLCs:                                 |                |                   |
| Equity method:                            |                |                   |
| Private equity                            | 13,345         | 12,350            |
| Hedge funds                               | 28,466         | 28,167            |
| Real estate-related                       | 1,299          | 1,112             |
| Subtotal equity method                    | 43,110         | 41,629            |
| Fair value:                               |                |                   |
| Private equity                            | 1,246          | 1,141             |
| Hedge funds                               | 107            | 121               |
| Real estate-related                       | 1,375          | 1,186             |
| Subtotal fair value(1)                    | 2,728          | 2,448             |
| Total LPs/LLCs                            | 45,838         | 44,077            |
| Derivative instruments                    | 0              | 0                 |
| Total other invested assets(2)            | \$ 48,704      | \$ 46,803         |

(1) As of December 31, 2017, \$2.3 million was accounted for under the cost method.

(2) Prior period amounts have been reclassified to conform to current period presentation. For additional information, see Note 2.

**Net Investment Income**

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

|                                             | Three Months Ended March 31, |           |
|---------------------------------------------|------------------------------|-----------|
|                                             | 2018                         | 2017      |
|                                             | (in thousands)               |           |
| Fixed maturities, available-for-sale        | \$ 12,639                    | \$ 11,618 |
| Fixed maturities, trading                   | 82                           | 74        |
| Equity securities, at fair value            | 91                           | 91        |
| Commercial mortgage and other loans         | 1,239                        | 2,066     |
| Policy loans                                | 2,657                        | 2,577     |
| Short-term investments and cash equivalents | 89                           | 112       |
| Other invested assets                       | 673                          | 900       |
| Gross investment income                     | 17,470                       | 17,438    |
| Less: investment expenses                   | (921)                        | (966)     |
| Net investment income(1)                    | \$ 16,549                    | \$ 16,472 |

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

**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 March 31, |                   |
|---------------------------------------------|------------------------------|-------------------|
|                                             | 2018                         | 2017              |
|                                             | (in thousands)               |                   |
| Fixed maturities(1)                         | \$ 2                         | \$ (544)          |
| Commercial mortgage and other loans         | (8)                          | 8                 |
| LPs/LLCs                                    | 48                           | (1)               |
| Derivatives(2)                              | (3,973)                      | (3,029)           |
| Short term investments and cash equivalents | 0                            | (6)               |
| Realized investment gains (losses), net     | <u>\$ (3,931)</u>            | <u>\$ (3,572)</u> |

(1) Includes fixed maturity securities classified as available-for-sale and excludes fixed maturity securities classified as trading.

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

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

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

|                                                         | March 31, 2018   | December 31, 2017 |
|---------------------------------------------------------|------------------|-------------------|
|                                                         | (in thousands)   |                   |
| Fixed maturity securities, available-for-sale—with OTTI | \$ 167           | \$ 162            |
| Fixed maturity securities, available-for-sale—all other | 23,615           | 56,909            |
| Equity securities, available-for-sale(1)                | 0                | 270               |
| Derivatives designated as cash flow hedges(2)           | (9,473)          | (5,036)           |
| Affiliated notes                                        | 595              | 682               |
| Other investments                                       | (15)             | (288)             |
| Net unrealized gains (losses) on investments            | <u>\$ 14,889</u> | <u>\$ 52,699</u>  |

(1) Effective January 1, 2018, unrealized gains (losses) on equity securities are recorded within "Other income."

(2) For more information on cash flow hedges, see Note 4.

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

***Repurchase Agreements and Securities Lending***

In the normal course of business, the Company sells securities under agreements to repurchase and enters into securities lending transactions. As of March 31, 2018 and December 31, 2017, the Company had no repurchase agreements.

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:

|                                                                                      | March 31, 2018                                     |               |                 | December 31, 2017                                  |                  |                  |
|--------------------------------------------------------------------------------------|----------------------------------------------------|---------------|-----------------|----------------------------------------------------|------------------|------------------|
|                                                                                      | 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                                               | \$ 10,310        | \$ 10,310        |
| Foreign government bonds                                                             | 1,272                                              | 0             | 1,272           | 4,420                                              | 0                | 4,420            |
| U.S. public corporate securities                                                     | 2,616                                              | 0             | 2,616           | 0                                                  | 0                | 0                |
| Foreign public corporate securities                                                  | 449                                                | 0             | 449             | 478                                                | 0                | 478              |
| Total cash collateral for loaned securities(1)                                       | <u>\$ 4,337</u>                                    | <u>\$ 0</u>   | <u>\$ 4,337</u> | <u>\$ 4,898</u>                                    | <u>\$ 10,310</u> | <u>\$ 15,208</u> |

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

**4. 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: futures, swaps, options, swaptions, caps and floors
- Equity contracts: futures, 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, 2017.

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

**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 risk, excluding embedded derivatives and associated reinsurance recoverables. Many derivative instruments contain multiple underlying risks. 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, and non-performance risk ("NPR").

| Primary Underlying Risk/Instrument Type                     | March 31, 2018 |                  |             | December 31, 2017 |                  |             |
|-------------------------------------------------------------|----------------|------------------|-------------|-------------------|------------------|-------------|
|                                                             | 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                                      | \$ 120,645     | \$ 755           | \$ (11,712) | \$ 110,240        | \$ 1,320         | \$ (6,869)  |
| Total Qualifying Hedges                                     | \$ 120,645     | \$ 755           | \$ (11,712) | \$ 110,240        | \$ 1,320         | \$ (6,869)  |
| Derivatives Not Qualifying as Hedge Accounting Instruments: |                |                  |             |                   |                  |             |
| Interest Rate                                               |                |                  |             |                   |                  |             |
| Interest Rate Swaps                                         | \$ 59,075      | \$ 2,285         | \$ 0        | \$ 59,075         | \$ 3,766         | \$ 0        |
| Credit                                                      |                |                  |             |                   |                  |             |
| Credit Default Swaps                                        | 756            | 0                | (37)        | 1,594             | 0                | (96)        |
| Currency/Interest Rate                                      |                |                  |             |                   |                  |             |
| Foreign Currency Swaps                                      | 16,815         | 929              | (543)       | 22,237            | 1,748            | (674)       |
| Foreign Currency                                            |                |                  |             |                   |                  |             |
| Foreign Currency Forwards                                   | 1,652          | 0                | (21)        | 1,888             | 0                | (52)        |
| Equity                                                      |                |                  |             |                   |                  |             |
| Equity Options                                              | 180,900        | 6,750            | (1,995)     | 152,800           | 8,125            | (2,813)     |
| Total Non-Qualifying Hedges                                 | \$ 259,198     | \$ 9,964         | \$ (2,596)  | \$ 237,594        | \$ 13,639        | \$ (3,635)  |
| Total Derivatives(1)                                        | \$ 379,843     | \$ 10,719        | \$ (14,308) | \$ 347,834        | \$ 14,959        | \$ (10,504) |

(1) Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlying risks.

The fair value of the embedded derivatives, included in "Future policy benefits," was a net liability of \$358 million and \$472 million as of March 31, 2018 and December 31, 2017, respectively. The fair value of the related reinsurance recoverables, included in "Reinsurance recoverables," was a net asset of \$358 million and \$472 million as of March 31, 2018 and December 31, 2017, 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 \$5 million and \$5 million as of March 31, 2018 and December 31, 2017, respectively. There was no related reinsurance recoverables at each respective period.

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

**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.

| March 31, 2018                                  |                                                               |                                                                                             |                                                                                           |                                            |               |
|-------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|--------------------------------------------|---------------|
|                                                 | Gross<br>Amounts of<br>Recognized<br>Financial<br>Instruments | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Statements of<br>Financial<br>Position | Net Amounts<br>Presented in<br>the Consolidated<br>Statements<br>of Financial<br>Position | Financial<br>Instruments/<br>Collateral(1) | Net<br>Amount |
| (in thousands)                                  |                                                               |                                                                                             |                                                                                           |                                            |               |
| <b>Offsetting of Financial Assets:</b>          |                                                               |                                                                                             |                                                                                           |                                            |               |
| Derivatives (1)                                 | \$ 10,719                                                     | \$ (10,719)                                                                                 | \$ 0                                                                                      | \$ 0                                       | \$ 0          |
| Securities purchased under agreements to resell | 14,500                                                        | 0                                                                                           | 14,500                                                                                    | (14,500)                                   | 0             |
| Total Assets                                    | \$ 25,219                                                     | \$ (10,719)                                                                                 | \$ 14,500                                                                                 | \$ (14,500)                                | \$ 0          |
| <b>Offsetting of Financial Liabilities:</b>     |                                                               |                                                                                             |                                                                                           |                                            |               |
| Derivatives (1)                                 | \$ 14,308                                                     | \$ (10,501)                                                                                 | \$ 3,807                                                                                  | \$ (3,807)                                 | \$ 0          |
| Securities sold under agreements to repurchase  | 0                                                             | 0                                                                                           | 0                                                                                         | 0                                          | 0             |
| Total Liabilities                               | \$ 14,308                                                     | \$ (10,501)                                                                                 | \$ 3,807                                                                                  | \$ (3,807)                                 | \$ 0          |
| December 31, 2017                               |                                                               |                                                                                             |                                                                                           |                                            |               |
|                                                 | Gross<br>Amounts of<br>Recognized<br>Financial<br>Instruments | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Statements of<br>Financial<br>Position | Net Amounts<br>Presented in<br>the Consolidated<br>Statements<br>of Financial<br>Position | Financial<br>Instruments/<br>Collateral(1) | Net<br>Amount |
| (in thousands)                                  |                                                               |                                                                                             |                                                                                           |                                            |               |
| <b>Offsetting of Financial Assets:</b>          |                                                               |                                                                                             |                                                                                           |                                            |               |
| Derivatives (1)                                 | \$ 14,959                                                     | \$ (14,959)                                                                                 | \$ 0                                                                                      | \$ 0                                       | \$ 0          |
| Securities purchased under agreements to resell | 43,000                                                        | 0                                                                                           | 43,000                                                                                    | (43,000)                                   | 0             |
| Total Assets                                    | \$ 57,959                                                     | \$ (14,959)                                                                                 | \$ 43,000                                                                                 | \$ (43,000)                                | \$ 0          |
| <b>Offsetting of Financial Liabilities:</b>     |                                                               |                                                                                             |                                                                                           |                                            |               |
| Derivatives (1)                                 | \$ 10,504                                                     | \$ (9,941)                                                                                  | \$ 563                                                                                    | \$ 0                                       | \$ 563        |
| Securities sold under agreements to repurchase  | 0                                                             | 0                                                                                           | 0                                                                                         | 0                                          | 0             |
| Total Liabilities                               | \$ 10,504                                                     | \$ (9,941)                                                                                  | \$ 563                                                                                    | \$ 0                                       | \$ 563        |

(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, 2017.

### 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.

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 March 31, 2018        |                             |              |            |
|-------------------------------------------------------------|------------------------------------------|-----------------------------|--------------|------------|
|                                                             | 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                                     | \$ 313                      | \$ (410)     | \$ (4,437) |
| Total cash flow hedges                                      | 0                                        | 313                         | (410)        | (4,437)    |
| Derivatives Not Qualifying as Hedge Accounting Instruments: |                                          |                             |              |            |
| Interest Rate                                               | (874)                                    | 0                           | 0            | 0          |
| Currency                                                    | (54)                                     | 0                           | 0            | 0          |
| Currency/Interest Rate                                      | (921)                                    | 0                           | (7)          | 0          |
| Credit                                                      | (1)                                      | 0                           | 0            | 0          |
| Equity                                                      | (573)                                    | 0                           | 0            | 0          |
| Embedded Derivatives                                        | (1,550)                                  | 0                           | 0            | 0          |
| Total non-qualifying hedges                                 | (3,973)                                  | 0                           | (7)          | 0          |
| Total                                                       | \$ (3,973)                               | \$ 313                      | \$ (417)     | \$ (4,437) |

|                                                             | Three Months Ended March 31, 2017        |                             |              |            |
|-------------------------------------------------------------|------------------------------------------|-----------------------------|--------------|------------|
|                                                             | 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                                     | \$ 107                      | \$ (95)      | \$ (1,255) |
| Total cash flow hedges                                      | 0                                        | 107                         | (95)         | (1,255)    |
| Derivatives Not Qualifying as Hedge Accounting Instruments: |                                          |                             |              |            |
| Interest Rate                                               | (14)                                     | 0                           | 0            | 0          |
| Currency                                                    | (43)                                     | 0                           | 0            | 0          |
| Currency/Interest Rate                                      | (219)                                    | 0                           | 1            | 0          |
| Credit                                                      | (31)                                     | 0                           | 0            | 0          |
| Equity                                                      | 685                                      | 0                           | 0            | 0          |
| Embedded Derivatives                                        | (3,407)                                  | 0                           | 0            | 0          |
| Total non-qualifying hedges                                 | (3,029)                                  | 0                           | 1            | 0          |
| Total                                                       | \$ (3,029)                               | \$ 107                      | \$ (94)      | \$ (1,255) |

(1) Amounts deferred in AOCl.

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

For the three months ended March 31, 2018 and 2017, the ineffective portion of derivatives accounted for using hedge accounting were de minimis 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.

Presented below is a rollforward of current period cash flow hedges in AOCI before taxes:

|                                                                                  | (in thousands) |
|----------------------------------------------------------------------------------|----------------|
| Balance, December 31, 2017                                                       | \$ (5,036)     |
| Net deferred gains/(losses) on cash flow hedges from January 1 to March 31, 2018 | (5,091)        |
| Amounts reclassified into current period earnings                                | 654            |
| Balance, March 31, 2018                                                          | \$ (9,473)     |

The changes in fair value of cash flow hedges are deferred in AOCI and are included in "Net unrealized investment gains (losses)" in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss); these amounts are then reclassified to earnings when the hedged item affects earnings. Using March 31, 2018 values, it is estimated that a pre-tax gain of \$1.3 million will be reclassified from AOCI to earnings during the subsequent twelve months ending March 31, 2019, offset by amounts pertaining to the hedged items.

As of March 31, 2018, 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 31 years.

***Credit Derivatives***

The Company has no exposure from credit derivative positions where it has written credit protection as of March 31, 2018 and December 31, 2017.

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 \$1 million and \$2 million reported at fair value as a liability of \$0.0 million and \$0.1 million as of March 31, 2018 and December 31, 2017, respectively.

***Credit Risk***

The Company is exposed to credit-related losses in the event of non-performance by counterparty to financial derivative transactions with a positive fair value. The Company manages credit risk by entering into derivative transactions with its affiliate, Prudential Global Funding LLC ("PGF"), related to its over-the-counter ("OTC") derivatives. PGF, in turn, manages its credit risk by: (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreement as applicable; (ii) trading through a central clearing and OTC; (iii) obtaining collateral, such as cash and securities, when appropriate; and (iv) setting limits on single party credit exposures which are subject to periodic management review.

Substantially all of the Company's derivative agreements have zero thresholds which require daily full collateralization by the party in a liability position.

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

**5. 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, 2017.

**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 March 31, 2018 |               |            |             |               |
|--------------------------------------------------------------------------------------|----------------------|---------------|------------|-------------|---------------|
|                                                                                      | 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                 | \$ 18,896     | \$ 0       | \$ 0        | \$ 18,896     |
| Obligations of U.S. states and their political subdivisions                          | 0                    | 124,182       | 0          | 0           | 124,182       |
| Foreign government bonds                                                             | 0                    | 56,501        | 0          | 0           | 56,501        |
| U.S. corporate public securities                                                     | 0                    | 475,145       | 0          | 0           | 475,145       |
| U.S. corporate private securities                                                    | 0                    | 222,222       | 13,912     | 0           | 236,134       |
| Foreign corporate public securities                                                  | 0                    | 49,055        | 0          | 0           | 49,055        |
| Foreign corporate private securities                                                 | 0                    | 160,116       | 709        | 0           | 160,825       |
| Asset-backed securities (2)                                                          | 0                    | 18,480        | 8,066      | 0           | 26,546        |
| Commercial mortgage-backed securities                                                | 0                    | 116,295       | 193        | 0           | 116,488       |
| Residential mortgage-backed securities                                               | 0                    | 9,423         | 196        | 0           | 9,619         |
| Subtotal                                                                             | 0                    | 1,250,315     | 23,076     | 0           | 1,273,391     |
| Fixed maturities, trading                                                            | 0                    | 6,722         | 0          | 0           | 6,722         |
| Equity securities                                                                    | 0                    | 5,223         | 7,183      | 0           | 12,406        |
| Short-term investments                                                               | 0                    | 0             | 0          | 0           | 0             |
| Cash equivalents                                                                     | 0                    | 0             | 0          | 0           | 0             |
| Other invested assets(3)                                                             | 0                    | 10,719        | 0          | (10,719)    | 0             |
| Reinsurance recoverables                                                             | 0                    | 0             | 358,391    | 0           | 358,391       |
| Receivables from parent and affiliates                                               | 0                    | 3,182         | 6,029      | 0           | 9,211         |
| Subtotal excluding separate account assets                                           | 0                    | 1,276,161     | 394,679    | (10,719)    | 1,660,121     |
| Separate account assets(4)(5)                                                        | 0                    | 12,344,832    | 0          | 0           | 12,344,832    |
| Total assets                                                                         | \$ 0                 | \$ 13,620,993 | \$ 394,679 | \$ (10,719) | \$ 14,004,953 |
| Future policy benefits(6)                                                            | \$ 0                 | \$ 0          | \$ 358,391 | \$ 0        | \$ 358,391    |
| Policyholders' account balances                                                      | 0                    | 0             | 4,910      | 0           | 4,910         |
| Payables to parent and affiliates                                                    | 0                    | 14,308        | 0          | (10,501)    | 3,807         |
| Total liabilities                                                                    | \$ 0                 | \$ 14,308     | \$ 363,301 | \$ (10,501) | \$ 367,108    |

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

| As of December 31, 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           | \$ 19,296     | \$ 0       | \$ 0        | \$ 19,296     |
| Obligations of U.S. states and their political subdivisions                          | 0              | 127,868       | 0          | 0           | 127,868       |
| Foreign government bonds                                                             | 0              | 29,705        | 0          | 0           | 29,705        |
| U.S. corporate public securities                                                     | 0              | 497,522       | 0          | 0           | 497,522       |
| U.S. corporate private securities                                                    | 0              | 228,219       | 13,871     | 0           | 242,090       |
| Foreign corporate public securities                                                  | 0              | 37,681        | 0          | 0           | 37,681        |
| Foreign corporate private securities                                                 | 0              | 149,063       | 645        | 0           | 149,708       |
| Asset-backed securities(2)                                                           | 0              | 16,239        | 11,575     | 0           | 27,814        |
| Commercial mortgage-backed securities                                                | 0              | 119,527       | 0          | 0           | 119,527       |
| Residential mortgage-backed securities                                               | 0              | 10,026        | 0          | 0           | 10,026        |
| Subtotal                                                                             | 0              | 1,235,146     | 26,091     | 0           | 1,261,237     |
| Fixed maturities, trading(7)                                                         | 0              | 6,643         | 0          | 0           | 6,643         |
| Equity securities(7)                                                                 | 0              | 3,414         | 7,428      | 0           | 10,842        |
| Short-term investments                                                               | 0              | 0             | 0          | 0           | 0             |
| Cash equivalents                                                                     | 0              | 0             | 0          | 0           | 0             |
| Other invested assets(3)(7)                                                          | 0              | 14,959        | 0          | (14,959)    | 0             |
| Reinsurance recoverables                                                             | 0              | 0             | 472,157    | 0           | 472,157       |
| Receivables from parent and affiliates                                               | 0              | 9,377         | 0          | 0           | 9,377         |
| Subtotal excluding separate account assets                                           | 0              | 1,269,539     | 505,676    | (14,959)    | 1,760,256     |
| Separate account assets(4)(5)                                                        | 0              | 12,454,118    | 0          | 0           | 12,454,118    |
| Total assets                                                                         | \$ 0           | \$ 13,723,657 | \$ 505,676 | \$ (14,959) | \$ 14,214,374 |
| Future policy benefits(6)                                                            | \$ 0           | \$ 0          | \$ 472,157 | \$ 0        | \$ 472,157    |
| Policyholders' account balances                                                      | 0              | 0             | 5,463      | 0           | 5,463         |
| Payables to parent and affiliates                                                    | 0              | 10,504        | 0          | (9,941)     | 563           |
| Total liabilities                                                                    | \$ 0           | \$ 10,504     | \$ 477,620 | \$ (9,941)  | \$ 478,183    |

- (1) "Netting" amounts represent cash collateral of \$0.2 million and \$5.0 million as of March 31, 2018 and December 31, 2017, respectively. The impact of offsetting asset and liability positions held with the same counterparty, subject to master netting arrangements.
- (2) Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
- (3) Other invested assets 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 March 31, 2018 and December 31, 2017, the fair value of such investments were \$2.7 million and \$0.7 million, respectively.
- (4) 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.
- (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 March 31, 2018 and December 31, 2017, the fair value of such investments was \$1,775 million and 1,791 million, respectively.
- (6) As of March 31, 2018, the net embedded derivative liability position of \$358 million includes \$88 million of embedded derivatives in an asset position and \$446 million of embedded derivatives in a liability position. As of December 31, 2017, the net embedded derivative liability position of \$472 million includes \$77 million of embedded derivatives in an asset position and \$549 million of embedded derivatives in a liability position.
- (7) Prior period amounts have been reclassified to conform to current period presentation. See Note 2 for details.

**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. The fair value of foreign common stock held in the Company's Separate account may reflect differences in market levels between the close of foreign trading markets and the close of U.S. trading markets for the respective day. Dependent on the existence of such a timing difference, the assets may move between Level 1 and Level 2. During the three months ended March 31, 2018 and 2017, 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 March 31, 2018 |                                                                         |                         |                              |         |                  |                                              |
|---------------------------|----------------------|-------------------------------------------------------------------------|-------------------------|------------------------------|---------|------------------|----------------------------------------------|
|                           | Fair Value           | Valuation Techniques                                                    | Unobservable Inputs     | Minimum                      | Maximum | Weighted Average | Impact of Increase in Input on Fair Value(1) |
|                           | (in thousands)       |                                                                         |                         |                              |         |                  |                                              |
| Assets:                   |                      |                                                                         |                         |                              |         |                  |                                              |
| Corporate securities(2)   | \$ 14,621            | Discounted cash flow                                                    | Discount rate           | 5.75%                        | 19.27%  | 7.88%            | Decrease                                     |
| Reinsurance recoverables  | \$ 358,391           | Fair values are determined in the same manner as future policy benefits |                         |                              |         |                  |                                              |
| Liabilities:              |                      |                                                                         |                         |                              |         |                  |                                              |
| Future policy benefits(3) | \$ 358,391           | Discounted cash flow                                                    | Lapse rate(4)           | 1%                           | 12%     |                  | Decrease                                     |
|                           |                      |                                                                         | Spread over LIBOR(5)    | 0.24%                        | 1.21%   |                  | Decrease                                     |
|                           |                      |                                                                         | Utilization rate(6)     | 52%                          | 97%     |                  | Increase                                     |
|                           |                      |                                                                         | Withdrawal rate         | See table footnote (7) below |         |                  |                                              |
|                           |                      |                                                                         | Mortality rate (8)      | 0%                           | 14%     |                  | Decrease                                     |
|                           |                      |                                                                         | Equity volatility curve | 16%                          | 24%     |                  | Increase                                     |

|                           | As of December 31, 2017 |                                                                         |                         |                              |         |                  |                                              |
|---------------------------|-------------------------|-------------------------------------------------------------------------|-------------------------|------------------------------|---------|------------------|----------------------------------------------|
|                           | Fair Value              | Valuation Techniques                                                    | Unobservable Inputs     | Minimum                      | Maximum | Weighted Average | Impact of Increase in Input on Fair Value(1) |
|                           | (in thousands)          |                                                                         |                         |                              |         |                  |                                              |
| Assets:                   |                         |                                                                         |                         |                              |         |                  |                                              |
| Corporate securities(2)   | \$ 14,516               | Discounted cash flow                                                    | Discount rate           | 5.06%                        | 22.23%  | 7.53%            | Decrease                                     |
| Reinsurance recoverables  | \$ 472,157              | Fair values are determined in the same manner as future policy benefits |                         |                              |         |                  |                                              |
| Liabilities:              |                         |                                                                         |                         |                              |         |                  |                                              |
| Future policy benefits(3) | \$ 472,157              | Discounted cash flow                                                    | Lapse rate(4)           | 1%                           | 12%     |                  | Decrease                                     |
|                           |                         |                                                                         | Spread over LIBOR(5)    | 0.12%                        | 1.10%   |                  | Decrease                                     |
|                           |                         |                                                                         | Utilization rate(6)     | 52%                          | 97%     |                  | Increase                                     |
|                           |                         |                                                                         | Withdrawal rate         | See table footnote(7) below. |         |                  |                                              |
|                           |                         |                                                                         | Mortality rate(8)       | 0%                           | 14%     |                  | Decrease                                     |
|                           |                         |                                                                         | Equity volatility curve | 13%                          | 24%     |                  | 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) Includes assets classified as fixed maturities available-for-sale.
- (3) Future policy benefits primarily represent general account liabilities for the living benefit features of the Company's variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.
- (4) 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.
- (5) The spread over the London Inter-Bank Offered Rate ("LIBOR") swap curve represents the premium added to the proxy for the risk-free rate (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 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.
- (6) The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration, and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilize the benefit. Utilization assumptions may vary by product type, tax status and age. The impact of changes in these assumptions is highly dependent on the product type, the age of the contractholder at the time of the sale, and the timing of the first lifetime income withdrawal. Range reflects the utilization rate for the vast majority of business with living benefits.
- (7) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of March 31, 2018 and December 31, 2017, the minimum withdrawal rate assumption is 78% and the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.
- (8) 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.

**Interrelationships Between Unobservable Inputs** – In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another, or multiple, inputs. For the discussion of the relationships between unobservable inputs as well as market factors that may affect the range of inputs used in the valuation of Level 3 assets and liabilities, see Note 9 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

**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 significance of the unobservable inputs in the overall fair value measurement. Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies or the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate. For further information on valuation processes, see Note 9 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

|                                                     | Three Months Ended March 31, 2018   |                          |                   |
|-----------------------------------------------------|-------------------------------------|--------------------------|-------------------|
|                                                     | Fixed Maturities Available-for-Sale |                          |                   |
|                                                     | Corporate Securities(1)             | Structured Securities(2) | Equity Securities |
|                                                     | (in thousands)                      |                          |                   |
| Fair Value, beginning of period                     | \$ 14,516                           | \$ 11,575                | \$ 7,428          |
| Total gains (losses) (realized/unrealized):         |                                     |                          |                   |
| Included in earnings:                               |                                     |                          |                   |
| Realized investment gains (losses), net             | 0                                   | 0                        | 0                 |
| Asset administration fees and other income          | 0                                   | 0                        | (245)             |
| Included in other comprehensive income (loss)       | 163                                 | 2                        | 0                 |
| Net investment income                               | 29                                  | 3                        | 0                 |
| Purchases                                           | 60                                  | 190                      | 0                 |
| Sales                                               | 0                                   | 0                        | 0                 |
| Issuances                                           | 0                                   | 0                        | 0                 |
| Settlements                                         | (147)                               | (5)                      | 0                 |
| Transfers into Level 3(4)                           | 0                                   | 196                      | 0                 |
| Transfers out of Level 3(4)                         | 0                                   | (3,506)                  | 0                 |
| Other                                               | 0                                   | 0                        | 0                 |
| Fair Value, end of period                           | \$ 14,621                           | \$ 8,455                 | \$ 7,183          |
| Unrealized gains (losses) for assets still held(5): |                                     |                          |                   |
| Included in earnings:                               |                                     |                          |                   |
| Realized investment gains (losses), net             | \$ 0                                | \$ 0                     | \$ 0              |
| Asset administration fees and other income          | \$ 0                                | \$ 0                     | \$ (245)          |

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

|                                                                 | Three Months Ended March 31, 2018 |                                        |                        |                                 |
|-----------------------------------------------------------------|-----------------------------------|----------------------------------------|------------------------|---------------------------------|
|                                                                 | Reinsurance Recoverables          | Receivables from Parent and Affiliates | Future Policy Benefits | Policyholders' Account Balances |
|                                                                 | (in thousands)                    |                                        |                        |                                 |
| Fair Value, beginning of period                                 | \$ 472,157                        | \$ 0                                   | \$ (472,157)           | \$ (5,463)                      |
| Total gains (losses) (realized/unrealized):                     |                                   |                                        |                        |                                 |
| Included in earnings:                                           |                                   |                                        |                        |                                 |
| Realized investment gains (losses), net(6)                      | (135,121)                         | 0                                      | 135,121                | 617                             |
| Asset administration fees and other income                      | 0                                 | 0                                      | 0                      | 0                               |
| Included in other comprehensive income (loss)                   | 0                                 | (18)                                   | 0                      | 0                               |
| Net investment income                                           | 0                                 | 0                                      | 0                      | 0                               |
| Purchases                                                       | 21,355                            | 0                                      | 0                      | 0                               |
| Sales                                                           | 0                                 | 0                                      | 0                      | 0                               |
| Issuances                                                       | 0                                 | 0                                      | (21,355)               | 0                               |
| Settlements                                                     | 0                                 | 0                                      | 0                      | (64)                            |
| Transfers into Level 3(4)                                       | 0                                 | 6,047                                  | 0                      | 0                               |
| Transfers out of Level 3(4)                                     | 0                                 | 0                                      | 0                      | 0                               |
| Other                                                           | 0                                 | 0                                      | 0                      | 0                               |
| Fair Value, end of period                                       | <u>\$ 358,391</u>                 | <u>\$ 6,029</u>                        | <u>\$ (358,391)</u>    | <u>\$ (4,910)</u>               |
| Unrealized gains (losses) for assets/liabilities still held(5): |                                   |                                        |                        |                                 |
| Included in earnings:                                           |                                   |                                        |                        |                                 |
| Realized investment gains (losses), net                         | \$ (131,213)                      | \$ 0                                   | \$ 131,213             | \$ 617                          |
| Asset administration fees and other income                      | \$ 0                              | \$ 0                                   | \$ 0                   | \$ 0                            |

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

|                                                     | Three Months Ended March 31, 2017   |                          |                      |
|-----------------------------------------------------|-------------------------------------|--------------------------|----------------------|
|                                                     | Fixed Maturities Available-For-Sale |                          |                      |
|                                                     | Corporate Securities(1)             | Structured Securities(2) | Equity Securities(3) |
|                                                     | (in thousands)                      |                          |                      |
| Fair Value, beginning of period                     | \$ 15,489                           | \$ 2,328                 | \$ 6,721             |
| Total gains (losses) (realized/unrealized):         |                                     |                          |                      |
| Included in earnings:                               |                                     |                          |                      |
| Realized investment gains (losses), net             | (62)                                | 0                        | 0                    |
| Asset administration fees and other income          | 0                                   | 0                        | 652                  |
| Included in other comprehensive income (loss)       | 402                                 | (1)                      | 0                    |
| Net investment income                               | 6                                   | 3                        | 0                    |
| Purchases                                           | 911                                 | 0                        | 0                    |
| Sales                                               | 0                                   | 0                        | 0                    |
| Issuances                                           | 0                                   | 0                        | 0                    |
| Settlements                                         | (21)                                | 0                        | 0                    |
| Transfers into Level 3(4)                           | 0                                   | 12,395                   | 0                    |
| Transfers out of Level 3(4)                         | 0                                   | 0                        | 0                    |
| Other                                               | 0                                   | 0                        | 0                    |
| Fair Value, end of period                           | <u>\$ 16,725</u>                    | <u>\$ 14,725</u>         | <u>\$ 7,373</u>      |
| Unrealized gains (losses) for assets still held(5): |                                     |                          |                      |
| Included in earnings:                               |                                     |                          |                      |
| Realized investment gains (losses), net             | \$ (62)                             | \$ 0                     | \$ 0                 |
| Asset administration fees and other income          | \$ 0                                | \$ 0                     | \$ 653               |

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

|                                                                 | Three Months Ended March 31, 2017 |                                        |                        |                                 |
|-----------------------------------------------------------------|-----------------------------------|----------------------------------------|------------------------|---------------------------------|
|                                                                 | Reinsurance Recoverables          | Receivables from Parent and Affiliates | Future Policy Benefits | Policyholders' Account Balances |
|                                                                 | (in thousands)                    |                                        |                        |                                 |
| Fair Value, beginning of period                                 | \$ 434,713                        | \$ 5,993                               | \$ (434,713)           | \$ (2,298)                      |
| Total gains (losses) (realized/unrealized):                     |                                   |                                        |                        |                                 |
| Included in earnings:                                           |                                   |                                        |                        |                                 |
| Realized investment gains (losses), net(6)                      | (56,069)                          | 0                                      | 56,069                 | (704)                           |
| Asset administration fees and other income                      | 0                                 | 0                                      | 0                      | 0                               |
| Included in other comprehensive income (loss)                   | 0                                 | 0                                      | 0                      | 0                               |
| Net investment income                                           | 0                                 | 0                                      | 0                      | 0                               |
| Purchases                                                       | 20,044                            | 0                                      | 0                      | 0                               |
| Sales                                                           | 0                                 | 0                                      | 0                      | 0                               |
| Issuances                                                       | 0                                 | 0                                      | (20,044)               | 0                               |
| Settlements                                                     | 0                                 | 0                                      | 0                      | 96                              |
| Transfers into Level 3(4)                                       | 0                                 | 0                                      | 0                      | 0                               |
| Transfers out of Level 3(4)                                     | 0                                 | (5,993)                                | 0                      | 0                               |
| Other                                                           | 0                                 | 0                                      | 0                      | 0                               |
| Fair Value, end of period                                       | <u>\$ 398,688</u>                 | <u>\$ 0</u>                            | <u>\$ (398,688)</u>    | <u>\$ (2,906)</u>               |
| Unrealized gains (losses) for assets/liabilities still held(5): |                                   |                                        |                        |                                 |
| Included in earnings:                                           |                                   |                                        |                        |                                 |
| Realized investment gains (losses), net                         | \$ (53,616)                       | \$ 0                                   | \$ 53,616              | \$ (704)                        |
| Asset administration fees and other income                      | \$ 0                              | \$ 0                                   | \$ 0                   | \$ 0                            |

(1) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities. Prior period amounts were aggregated to conform to current period presentation.

(2) Includes asset-backed, commercial mortgage-backed and residential mortgage-backed securities. Prior period amounts were aggregated to conform to current period presentation.

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

(4) 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.

(5) 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.

(6) Realized investment gains (losses) on Future Policy Benefits and Reinsurance Recoverables primarily represent the change in the fair value of the Company's living benefit guarantees on certain of its variable annuity contracts.

**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.

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

| March 31, 2018                                         |                  |                   |                   |                   |                    |
|--------------------------------------------------------|------------------|-------------------|-------------------|-------------------|--------------------|
|                                                        | 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              | \$ 124,680        | \$ 124,680        | \$ 123,147         |
| Policy loans                                           | 0                | 0                 | 195,683           | 195,683           | 195,683            |
| Cash and cash equivalents                              | 11,318           | 14,500            | 0                 | 25,818            | 25,818             |
| Accrued investment income                              | 0                | 17,218            | 0                 | 17,218            | 17,218             |
| Receivables from parent and affiliates                 | 0                | 31,937            | 0                 | 31,937            | 31,937             |
| Other assets                                           | 0                | 5,983             | 0                 | 5,983             | 5,983              |
| <b>Total assets</b>                                    | <b>\$ 11,318</b> | <b>\$ 69,638</b>  | <b>\$ 320,363</b> | <b>\$ 401,319</b> | <b>\$ 399,786</b>  |
| <b>Liabilities:</b>                                    |                  |                   |                   |                   |                    |
| Policyholders' account balances - investment contracts | \$ 0             | \$ 183,722        | \$ 40,383         | \$ 224,105        | \$ 225,024         |
| Cash collateral for loaned securities                  | 0                | 4,337             | 0                 | 4,337             | 4,337              |
| Short-term debt                                        | 0                | 80                | 0                 | 80                | 80                 |
| Payables to parent and affiliates                      | 0                | 23,030            | 0                 | 23,030            | 23,030             |
| Other liabilities                                      | 0                | 40,949            | 0                 | 40,949            | 40,949             |
| <b>Total liabilities</b>                               | <b>\$ 0</b>      | <b>\$ 252,118</b> | <b>\$ 40,383</b>  | <b>\$ 292,501</b> | <b>\$ 293,420</b>  |

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

| December 31, 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              | \$ 125,121        | \$ 125,121        | \$ 121,796         |
| Policy loans                                           | 0               | 0                 | 193,244           | 193,244           | 193,244            |
| Cash and cash equivalents                              | 1,618           | 43,000            | 0                 | 44,618            | 44,618             |
| Accrued investment income                              | 0               | 16,580            | 0                 | 16,580            | 16,580             |
| Receivables from parent and affiliates                 | 0               | 33,674            | 0                 | 33,674            | 33,674             |
| Other assets                                           | 0               | 5,768             | 0                 | 5,768             | 5,768              |
| <b>Total assets</b>                                    | <b>\$ 1,618</b> | <b>\$ 99,022</b>  | <b>\$ 318,365</b> | <b>\$ 419,005</b> | <b>\$ 415,680</b>  |
| <b>Liabilities:</b>                                    |                 |                   |                   |                   |                    |
| Policyholders' account balances - investment contracts | \$ 0            | \$ 179,246        | \$ 41,702         | \$ 220,948        | \$ 221,407         |
| Cash collateral for loaned securities                  | 0               | 15,208            | 0                 | 15,208            | 15,208             |
| Payables to parent and affiliates                      | 0               | 21,673            | 0                 | 21,673            | 21,673             |
| Other liabilities                                      | 0               | 39,561            | 0                 | 39,561            | 39,561             |
| <b>Total liabilities</b>                               | <b>\$ 0</b>     | <b>\$ 255,688</b> | <b>\$ 41,702</b>  | <b>\$ 297,390</b> | <b>\$ 297,849</b>  |

- (1) The information presented as of December 31, 2017, excludes certain hedge funds, private equity funds and other funds that were accounted for using the cost method and for which the fair value was measured at NAV per share (or its equivalent) as a practical expedient. The fair value and the carrying value of these cost method investments were \$2.3 million and \$2.6 million, respectively. Due to the adoption of ASU 2016-01 effective January 1, 2018, these assets are carried at fair value at each reporting date with changes in fair value reported in "Other income." Therefore, as of March 31, 2018, these assets are excluded from this table but are reported in the fair value recurring measurement table.
- (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 are out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments.

## 6. 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."

The Company's income tax provision amounted to an income tax expense of \$0.7 million, or 6.94% of income from operations before income taxes in the first three months of 2018, compared to an income tax expense of \$0.4 million, or 6.81% of income from operations before income taxes in the first three months of 2017. The Company's current effective tax rate differed from the U.S. statutory rate of 21% primarily due to non-taxable investment income and tax credits. The Company's prior effective tax rate differed from the U.S. statutory rate of 35% primarily due to non-taxable investment income, tax credits, and domestic production activities deduction. The Tax Cuts and Jobs Act of 2017 ("Tax Act of 2017") modified the methodology for determining the dividend received deduction and will likely reduce the tax benefit of non-taxable investment income in periods starting after December 31, 2017.

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

On December 22, 2017, the Tax Act of 2017 was enacted into U.S. law. As a result, the Company recognized a \$2.5 million tax expense in “Total income tax expense (benefit)” in the Company’s Statements of Operations for the year ended December 31, 2017. In accordance with SEC Staff Accounting Bulletin 118, the Company recorded the effects of the Tax Act of 2017 as reasonable estimates due to the need for further analysis of the provisions within the Tax Act of 2017 and collection, preparation and analysis of relevant data necessary to complete the accounting. The Company has not fully completed its accounting for the tax effects of the Tax Act of 2017. As the Company completes the collection, preparation and analysis of data relevant to the Tax Act of 2017, and interprets any additional guidance issued by the IRS, U.S. Department of the Treasury, or other standard-setting organizations, the Company may make adjustments to these provisional amounts. These adjustments may materially impact the Company’s provision for income taxes in the period in which the adjustments are made. During the first quarter of 2018, the Company did not recognize additional refinements of our provisional estimates.

The cumulative financial statement impact related to the Tax Act of 2017 as of March 31, 2018 was a \$2.5 million tax expense, unchanged from the balance as of December 31, 2017.

**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”), Dryden Arizona Reinsurance Term Company (“DART”), 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”. For additional information related to the accounting for embedded derivatives, 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, 2017.

**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 Financial Position as of March 31, 2018 and December 31, 2017 were as follows:

|                                   | March 31, 2018 | December 31, 2017 |
|-----------------------------------|----------------|-------------------|
|                                   | (in thousands) |                   |
| Reinsurance recoverables          | \$ 2,416,708   | \$ 2,480,848      |
| Policy loans                      | (16,547)       | (16,065)          |
| Deferred policy acquisition costs | (719,408)      | (708,740)         |
| Deferred sales inducements        | (57,061)       | (58,399)          |
| Other assets                      | 18,381         | 19,159            |
| Other liabilities                 | 57,015         | 56,232            |

The reinsurance recoverables by counterparty are broken out below:

|                                | March 31, 2018      | December 31, 2017   |
|--------------------------------|---------------------|---------------------|
|                                | (in thousands)      |                     |
| PAR U                          | \$ 835,681          | \$ 814,408          |
| Prudential Insurance           | 758,361             | 859,122             |
| PARCC                          | 488,452             | 485,809             |
| PAR Term                       | 191,812             | 188,756             |
| Term Re                        | 125,183             | 116,869             |
| Pruco Life                     | 10,222              | 13,671              |
| DART                           | 4,147               | 0                   |
| Unaffiliated                   | 2,850               | 2,213               |
| Total reinsurance recoverables | <u>\$ 2,416,708</u> | <u>\$ 2,480,848</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 months ended March 31, were as follows:

|                                                                                                                       | <b>Three Months Ended March 31,</b> |                 |
|-----------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------|
|                                                                                                                       | <b>2018</b>                         | <b>2017</b>     |
|                                                                                                                       | <b>(in thousands)</b>               |                 |
| <b>Premiums:</b>                                                                                                      |                                     |                 |
| Direct                                                                                                                | \$ 59,374                           | \$ 57,240       |
| Ceded                                                                                                                 | (56,877)                            | (55,057)        |
| Net premiums                                                                                                          | 2,497                               | 2,183           |
| <b>Policy charges and fee income:</b>                                                                                 |                                     |                 |
| Direct                                                                                                                | 102,562                             | 82,767          |
| Ceded                                                                                                                 | (77,748)                            | (64,391)        |
| Net policy charges and fee income                                                                                     | 24,814                              | 18,376          |
| <b>Net investment income:</b>                                                                                         |                                     |                 |
| Direct                                                                                                                | 16,704                              | 16,616          |
| Ceded                                                                                                                 | (155)                               | (144)           |
| Net investment income                                                                                                 | 16,549                              | 16,472          |
| <b>Asset administration fees:</b>                                                                                     |                                     |                 |
| Direct                                                                                                                | 9,021                               | 9,214           |
| Ceded                                                                                                                 | (7,715)                             | (7,022)         |
| Net asset administration fees                                                                                         | 1,306                               | 2,192           |
| <b>Realized investment gains (losses), net:</b>                                                                       |                                     |                 |
| Direct                                                                                                                | 133,138                             | 55,279          |
| Ceded                                                                                                                 | (137,069)                           | (58,851)        |
| Realized investment gains (losses), net                                                                               | (3,931)                             | (3,572)         |
| <b>Policyholders' benefits (including change in reserves):</b>                                                        |                                     |                 |
| Direct                                                                                                                | 73,168                              | 79,462          |
| Ceded(1)                                                                                                              | (64,616)                            | (67,083)        |
| Net policyholders' benefits (including change in reserves)                                                            | 8,552                               | 12,379          |
| <b>Interest credited to policyholders' account balances:</b>                                                          |                                     |                 |
| Direct                                                                                                                | 16,522                              | 14,216          |
| Ceded                                                                                                                 | (7,958)                             | (6,395)         |
| Net interest credited to policyholders' account balances                                                              | 8,564                               | 7,821           |
| <b>Reinsurance expense allowances and general and administrative expenses, net of capitalization and amortization</b> | <b>(44,486)</b>                     | <b>(37,890)</b> |

(1) "Policyholders' benefits (including change in reserves) ceded" includes \$(0.6) million and \$0.9 million of unaffiliated activity for the three months ended March 31, 2018 and 2017, respectively.

The gross and net amounts of life insurance face amount in force as of March 31, 2018 and 2017 were as follows:

|                                                  | <b>2018</b>           | <b>2017</b>          |
|--------------------------------------------------|-----------------------|----------------------|
|                                                  | <b>(in thousands)</b> |                      |
| Direct gross life insurance face amount in force | \$ 136,932,244        | \$ 131,610,689       |
| Reinsurance ceded                                | (124,758,204)         | (119,864,058)        |
| Net life insurance face amount in force          | <u>\$ 12,174,040</u>  | <u>\$ 11,746,631</u> |

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

Information regarding significant affiliated reinsurance agreements is described below.

**PAR U**

Effective July 1, 2011, the Company reinsures an amount equal to 95% of all risks associated with Universal Protector policies having no-lapse guarantees as well as certain of its universal policies, excluding those policies that are subject to principles-based reserving.

**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 was 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 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 Annuities Recapture.

**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 December 31, 2017, through an automatic coinsurance agreement with Term Re.

**Pruco Life**

Effective July 1, 2017, the Company 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.

**DART**

Effective January 1, 2018, the Company entered into an automatic coinsurance agreement with DART to reinsure an amount equal to 95% of the risks associated with its term life insurance policies with effective dates on or after January 1, 2018.

**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 three months ended March 31, 2018 and 2017, 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, 2017                   | \$ (42)                                       | \$ 34,372                                   | \$ 34,330                                           |
| Change in OCI before reclassifications       | (235)                                         | (37,213)                                    | (37,448)                                            |
| Amounts reclassified from AOCI               | 0                                             | 652                                         | 652                                                 |
| Income tax benefit (expense)                 | 49                                            | 7,679                                       | 7,728                                               |
| Cumulative effect of adoption of ASU 2016-01 | 0                                             | (175)                                       | (175)                                               |
| Cumulative effect of adoption of ASU 2018-02 | (8)                                           | 5,901                                       | 5,893                                               |
| Balance, March 31, 2018                      | <u>\$ (236)</u>                               | <u>\$ 11,216</u>                            | <u>\$ 10,980</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, 2016             | \$ (70)                                       | \$ 12,231                                   | \$ 12,161                                           |
| Change in OCI before reclassifications | 4                                             | 5,649                                       | 5,653                                               |
| Amounts reclassified from AOCI         | 0                                             | 543                                         | 543                                                 |
| Income tax benefit (expense)           | (1)                                           | (2,167)                                     | (2,168)                                             |
| Balance, March 31, 2017                | <u>\$ (67)</u>                                | <u>\$ 16,256</u>                            | <u>\$ 16,189</u>                                    |

(1) Includes cash flow hedges of \$(9) million and \$(5) million as of March 31, 2018 and December 31, 2017, respectively, and \$4 million and \$5 million as of March 31, 2017 and December 31, 2016, respectively.

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

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

|                                                                              | Three Months Ended March 31, |          |
|------------------------------------------------------------------------------|------------------------------|----------|
|                                                                              | 2018                         | 2017     |
|                                                                              | (in thousands)               |          |
| <u>Amounts reclassified from AOCI (1)(2):</u>                                |                              |          |
| Net unrealized investment gains (losses):                                    |                              |          |
| Cash flow hedges - Currency/ Interest rate(3)                                | \$ (654)                     | \$ (60)  |
| Net unrealized investment gains (losses) on available-for-sale securities(4) | 2                            | (483)    |
| Total net unrealized investment gains (losses)                               | (652)                        | (543)    |
| Total reclassifications for the period                                       | \$ (652)                     | \$ (543) |

(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 4 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.

***Net Unrealized Investment Gains (Losses)***

Net unrealized investment gains (losses) on securities classified as available-for-sale, certain other invested assets 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 | Deferred<br>Income Tax<br>(Liability)<br>Benefit | Accumulated Other<br>Comprehensive<br>Income (Loss) Related To<br>Net Unrealized Investment<br>Gains (Losses) |
|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|---------------------------------------------------------|------------------------------------------------------------------|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
|                                                                                                                  | (in thousands)                                     |                                                         |                                                                  |                                                  |                                                                                                               |
| Balance, December 31, 2017                                                                                       | \$ 162                                             | \$ (63)                                                 | \$ 109                                                           | \$ (70)                                          | \$ 138                                                                                                        |
| Net investment gains (losses) on investments arising during the period                                           | 6                                                  | 0                                                       | 0                                                                | (1)                                              | 5                                                                                                             |
| Reclassification adjustment for (gains) losses included in net income                                            | (1)                                                | 0                                                       | 0                                                                | 0                                                | (1)                                                                                                           |
| Reclassification adjustment for OTTI (gains) losses excluded from net income(1)                                  | 0                                                  | 0                                                       | 0                                                                | 0                                                | 0                                                                                                             |
| Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs          | 0                                                  | 15                                                      | 0                                                                | (3)                                              | 12                                                                                                            |
| Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances | 0                                                  | 0                                                       | (28)                                                             | 5                                                | (23)                                                                                                          |
| Balance, March 31, 2018                                                                                          | <b>\$ 167</b>                                      | <b>\$ (48)</b>                                          | <b>\$ 81</b>                                                     | <b>\$ (69)</b>                                   | <b>\$ 131</b>                                                                                                 |

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

**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 and<br>Other Costs | Future Policy Benefits<br>and Policyholders'<br>Account Balances | 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, 2017                                                                                       | \$ 52,537                                             | \$ 35                                                   | \$ (1,754)                                                       | \$ (16,584)                                      | \$ 34,234                                                                                                     |
| Net investment gains (losses) on investments arising during the period                                           | (38,198)                                              | 0                                                       | 0                                                                | 8,022                                            | (30,176)                                                                                                      |
| Reclassification adjustment for (gains) losses included in net income                                            | 653                                                   | 0                                                       | 0                                                                | (137)                                            | 516                                                                                                           |
| Reclassification adjustment for OTTI (gains) losses excluded from net income(2)                                  | 0                                                     | 0                                                       | 0                                                                | 0                                                | 0                                                                                                             |
| Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs          | 0                                                     | 782                                                     | 0                                                                | (164)                                            | 618                                                                                                           |
| Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances | 0                                                     | 0                                                       | 210                                                              | (43)                                             | 167                                                                                                           |
| Cumulative effect of adoption of ASU 2016-01                                                                     | (270)                                                 | 0                                                       | 0                                                                | 95                                               | (175)                                                                                                         |
| Cumulative effect of adoption of ASU 2018-02                                                                     | 0                                                     | 0                                                       | 0                                                                | 5,901                                            | 5,901                                                                                                         |
| Balance, March 31, 2018                                                                                          | \$ 14,722                                             | \$ 817                                                  | \$ (1,544)                                                       | \$ (2,910)                                       | \$ 11,085                                                                                                     |

(1) Includes cash flow hedges. See Note 4 for information on cash flow hedges.

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

## 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-based awards program and a deferred compensation program issued by Prudential Financial. The expense charged to the Company for the stock-based awards program was \$0.0 million for both the three months ended March 31, 2018 and 2017. The expense charged to the Company for the deferred compensation program was \$0.3 million and \$0.4 million for the three months ended March 31, 2018 and 2017, respectively.

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

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. The Company's share of net expense for the pension plans was \$0.7 million and \$0.8 million for the three months ended March 31, 2018 and 2017, respectively.

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 \$0.9 million for both the three months ended March 31, 2018 and 2017.

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 March 31, 2018 and 2017.

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 \$17 million and \$15 million for the three months ended March 31, 2018 and 2017, 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 March 31, 2018 and 2017.

***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 \$2,308 million at March 31, 2018 and \$2,244 million at December 31, 2017. Fees related to these COLI policies were \$7 million for both the three months ended March 31, 2018 and 2017. 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 for both the three months ended March 31, 2018 and 2017. 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 4 for additional information.

***Joint Ventures***

The Company has made investments in joint ventures with certain subsidiaries of Prudential Financial. "Other invested assets" includes \$30 million and \$29 million as of March 31, 2018 and December 31, 2017, respectively. "Net investment income" related to these ventures includes a gain of \$0.2 million and \$0.9 million for the three months ended March 31, 2018 and 2017, 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. Income received from ASTISI and PGIM Investments related to this agreement was \$8 million and \$7 million for the three months ended March 31, 2018 and 2017, respectively. These revenues are recorded as "Asset administration fees" in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income.

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 \$1 million and \$2 million for the three months ended March 31, 2018 and 2017, 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 "Receivables from parent and affiliates" at March 31, 2018 and December 31, 2017 were as follows:

|                                                  | <u>Maturity Dates</u> |      | <u>Interest Rates</u> |        | <u>March 31, 2018</u> | <u>December 31, 2017</u> |
|--------------------------------------------------|-----------------------|------|-----------------------|--------|-----------------------|--------------------------|
|                                                  |                       |      |                       |        | (in thousands)        |                          |
| U.S. Dollar floating rate notes                  | 2028                  |      | 3.13%                 | 3.74%  | \$ 6,029              | \$ 6,047                 |
| U.S. Dollar fixed rate notes                     | 2026                  | 2027 | 0.00%                 | 14.85% | 3,181                 | 3,330                    |
| Total long-term notes receivable - affiliated(1) |                       |      |                       |        | <u>\$ 9,210</u>       | <u>\$ 9,377</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 at both March 31, 2018 and December 31, 2017, and is included in "Other assets". Revenues related to these loans were \$0.1 million for both the three months ended March 31, 2018 and 2017, 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. The table below shows affiliated asset trades for the three months ended March 31, 2018 and for the year ended December 31, 2017.

| <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. The following table provides the breakout of the Company's short-term and long-term debt with affiliates for the three months ended March 31, 2018 and for the year ended December 31, 2017.

| <u>Affiliate</u>                  | <u>Date Issued</u> | <u>Amount of Notes - March 31,<br/>2018</u> | <u>Amount of Notes - December<br/>31, 2017</u> | <u>Interest Rate</u> | <u>Date of Maturity</u> |
|-----------------------------------|--------------------|---------------------------------------------|------------------------------------------------|----------------------|-------------------------|
| (in thousands)                    |                    |                                             |                                                |                      |                         |
| Prudential Funding, LLC           | 3/29/2018          | \$ 80                                       | \$ 0                                           | 1.77%                | 4/2/2018                |
| Total Loans Payable to Affiliates |                    | <u>\$ 80</u>                                | <u>\$ 0</u>                                    |                      |                         |

The total interest expense to the Company related to loans payable to affiliates was \$0.0 million for both the three months ended March 31, 2018 and 2017.

***Contributed Capital and Dividends***

In both March of 2018 and 2017, the Company received a capital contribution in the amount of \$1 million from Pruco Life.

Through March 31, 2018, the Company did not pay any dividends. In June 2017, the Company paid a dividend in the amount of \$100 million to Pruco Life.

***Reinsurance with Affiliates***

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

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

**10. COMMITMENTS AND CONTINGENT LIABILITIES**

***Commitments***

The Company has made commitments to fund commercial loans. As of March 31, 2018, there were no outstanding commitments to fund commercial loans, and \$2 million as of December 31, 2017. The Company has made commitments to purchase or fund investments, mostly private fixed maturities. As of March 31, 2018 and December 31, 2017, \$31 million and \$33 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.

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. The Company estimates that as of March 31, 2018, 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.

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, 2017.

There are no material developments in previously reported matters disclosed as of December 31, 2017.

**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.

**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 March 31, 2018, compared with December 31, 2017, and its consolidated results of operations for the three months ended March 31, 2018 and 2017. 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, 2017, 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.

**Regulatory Developments**

*Fiduciary Rules*

In March 2018, the Fifth Circuit Court of Appeals vacated the fiduciary rules adopted by the U.S. Department of Labor ("DOL") in April 2016. The decision became effective on May 7, 2018. We cannot predict how the decision will impact our business, including in view of other pending regulatory developments regarding enhanced standards of care.

In April 2018, the Securities and Exchange Commission (the "SEC") proposed a package of rulemakings and interpretative guidance that would, among other things, require broker-dealers to act in the best interest of retail customers when recommending securities transactions or investment strategies to them. The proposals would also clarify the SEC's views of the fiduciary duty that investment advisers owe to their clients. If enacted in their current form, we believe the primary impact of the proposals would be to sales of certain of our products and to our Prudential Advisors distribution system. Given the uncertainty of the ultimate outcome of these proposals, we cannot predict the timing of any final rules or interpretations or their expected effects on our businesses.

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, 2017.

## **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, market experience true-ups, and amortization of deferred policy acquisition costs (“DAC”);
- 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—Market Risk” included in our Annual Report on Form 10-K for the year ended December 31, 2017.

## **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.

## **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, 2017 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 variable annuity contracts include an optional guaranteed living benefit which provides, 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 other 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 accounts. PDI includes a living benefit guarantee which provides for a specified lifetime income withdrawal rate applied to the purchase payments 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 with new sales, 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 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 March 31, 2018, 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 March 31, 2018, that give the policyholder the flexibility to change both the death benefit and premium payments, and provide the potential to earn returns based on 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 March 31, 2018, 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 March 31, 2018. 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");
- Policyholder liabilities;
- Valuation of investments, including derivatives, and the recognition of other-than-temporary impairments ("OTTI");
- Reinsurance recoverables;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

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

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 March 31, 2018, our variable annuities and variable life insurance businesses assume an 8% long-term equity expected rate of return and a 4.3% near-term mean reversion equity expected 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.

### **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**

#### **March 31, 2018 versus December 31, 2017**

Total assets decreased \$181 million, from \$18,644 million at December 31, 2017 to \$18,463 million at March 31, 2018. Significant components were:

- Separate account assets decreased \$125 million primarily driven by unfavorable market performance and policy charges.
- Reinsurance recoverables decreased \$64 million. The decrease was primarily related to the annuity reinsured living benefit liabilities resulting from a decrease in future expected benefit payments driven by rising rates and credit spread widening, partially offset by an increase in reserves related to universal and term life business growth.

Total liabilities decreased \$163 million, from \$18,177 million at December 31, 2017 to \$18,014 million at March 31, 2018. Significant components were:

- Separate account liabilities decreased \$126 million, corresponding to the decrease in separate account assets described above.
- Future policy benefits decreased \$87 million primarily related to the variable annuity living benefit liabilities, partially offset by term life business growth, as discussed above.

Partially offset by:

- Policyholders’ account balances increase of \$53 million primarily driven by universal life business growth.

Total equity decreased \$17 million from \$466 million at December 31, 2017 to \$449 million at March 31, 2018, primarily driven by unrealized investment losses due to the rising rates, partially offset by after-tax income.

## Results of Operations

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

#### *2018 to 2017 Three Months Comparison.*

Income from operations before income taxes increased \$4 million from \$7 million in the first quarter of 2017 to \$11 million in the first quarter of 2018. This was primarily driven by the favorable unearned revenue reserves ("URR") amortization and lower reserves as a result of a change to Cost of Reinsurance accounting in the second quarter of 2017 and business growth from variable and universal life products, partially offset by lower net investment income resulting from lower non-coupon investments.

### Revenues, Benefits and Expenses

#### *2018 to 2017 Three Months Comparison*

Revenues increased \$5 million from \$37 million in the first quarter of 2017 to \$42 million in the first quarter of 2018, primarily driven by favorable amortization and business growth from variable and universal life products, as discussed above.

Benefits and expenses remained relatively flat from \$31 million in the first quarter of 2017 to \$31 million in the first quarter of 2018.

#### *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, 2017.

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 accounts. The objective of the asset transfer feature is to reduce our exposure to equity market risk and market volatility. The asset transfer feature associated with currently-sold highest daily benefit products uses a designated bond fund sub-account within the separate accounts. The transfers are based on a static mathematical formula used with the particular benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder's total account value. 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. 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 had no impact on how we value or account for the living benefit guarantees under U.S. GAAP.

## **Income Taxes**

For information regarding income taxes, see Note 6 to the Unaudited Interim Consolidated Financial Statements.

## **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, 2017.

### **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 the sources of funds available to us 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 additional 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 “Business-Regulation” and “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2017.

## 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 National Association of Insurance Commissioners ("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 March 31, 2018 we estimate that the Company's RBC ratio exceeds the minimum level required by applicable insurance regulations.

The NAIC is evaluating changes to RBC factors as a result of the Tax Act of 2017, including the impact of the reduction of the corporate tax rate from 35% to 21%. This tax rate reduction has the effect of increasing an insurer's required capital on an after-tax basis. This general principle impacts a number of RBC factors resulting in an overall decrease in insurers' RBC ratios. While the impact and timing of any changes will not be fully known until the final updated RBC requirements are formally issued and adopted, the Company expects to have the necessary resources to maintain its "AA" ratings targets.

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.

## 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 March 31, 2018 and December 31, 2017 the Company had liquid assets of \$1,318 million and \$1,323 million, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$26 million and \$45 million as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, \$1,173 million, or 92%, of the fixed maturity investments in Company general account portfolios were rated high or highest quality based on NAIC or equivalent rating.

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. These surplus notes are subordinated to policyholder obligations, and the payment of principal on the surplus notes may only be made with prior insurance regulatory approval.

Our affiliated captive reinsurance companies have entered into agreements with external counterparties providing for the issuance 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 March 31, 2018, our affiliated captive reinsurance companies had Credit-Linked Note Structures with an aggregate issuance capacity of \$12,700 million, of which \$9,799 million was outstanding, as compared to an aggregate issuance capacity of \$11,100 million, of which \$9,487 million was outstanding, as of December 31, 2017. For more information on our Credit-Linked Note Structures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Financing Activities" in our Annual Report on Form 10-K for the year ended December 31, 2017.

As of March 31, 2018, our affiliated captive reinsurance companies also had outstanding an aggregate of \$3.2 billion of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$0.6 billion relates to Regulation XXX reserves and approximately \$2.6 billion relates to Guideline AXXX reserves, all of which was issued by Prudential Financial. In addition, as of March 31, 2018, 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 total additional asset requirement from the inception of AG 48 through December 31, 2017, was approximately \$1.8 billion, which we 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 2018.

The Company adopted principles-based reserving for its guaranteed universal life products and introduced updated versions of these products in 2017. The updated products are expected to support the principles-based statutory reserve level without the need for financing through captive reinsurance. The Company is continuing to assess the impact of principles-based reserving 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 March 31, 2018, there have been no material changes in our economic exposure to market risk from December 31, 2017, a description of which may be found in our Annual Report on Form 10-K for the year ended December 31, 2017, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," filed with the SEC. See Item 1A, "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2017, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

**Item 4. Controls and Procedures**

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company's management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities Exchange Act of 1934, as amended ("Exchange Act") Rule 13a-15(e), as of March 31, 2018. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2018, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended March 31, 2018, 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 10 to the Unaudited Interim Consolidated Financial Statements under “—Litigation and Regulatory Matters” for a description of certain pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, which is incorporated herein by reference.

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

You should carefully consider the risks described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017. These risks could materially affect our business, results of operations or financial condition 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: May 10, 2018

## CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Kent D. Sluyter, 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: May 10, 2018

/s/ Kent D. Sluyter

Kent D. Sluyter

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: May 10, 2018

/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, Kent D. Sluyter, 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 March 31, 2018 (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: May 10, 2018

/s/ Kent D. Sluyter

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Kent D. Sluyter

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 March 31, 2018 (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: May 10, 2018

/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.