

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the Transition Period from _____ to _____

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey
(State or Other Jurisdiction of
Incorporation or Organization)

22-3703799
(I.R.S. Employer
Identification Number)

751 Broad Street
Newark, NJ 07102
(973) 802-6000

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<u>Title of Each Class</u>	<u>Trading Symbols(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, Par Value \$.01	PRU	New York Stock Exchange
5.75% Junior Subordinated Notes	PJH	New York Stock Exchange
5.70% Junior Subordinated Notes	PRH	New York Stock Exchange
5.625% Junior Subordinated Notes	PRS	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

As of October 31, 2019, 402 million shares of the registrant's Common Stock (par value \$0.01) were outstanding.

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Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “includes,” “plans,” “assumes,” “estimates,” “projects,” “intends,” “should,” “will,” “shall” or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management’s current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) losses on investments or financial contracts due to deterioration in credit quality or value, or counterparty default; (2) losses on insurance products due to mortality experience, morbidity experience or policyholder behavior experience that differs significantly from our expectations when we price our products; (3) changes in interest rates, equity prices and foreign currency exchange rates that may (a) adversely impact the profitability of our products, the value of separate accounts supporting these products or the value of assets we manage, (b) result in losses on derivatives we use to hedge risk or increase collateral posting requirements and (c) limit opportunities to invest at appropriate returns; (4) guarantees within certain of our products 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, labor and employment, external events and human error or misconduct 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; (7) changes in the regulatory landscape, including related to (a) financial sector regulatory reform, (b) changes in tax laws, (c) fiduciary rules and other standards of care, (d) U.S. state insurance laws and developments regarding group-wide supervision, capital and reserves, (e) insurer capital standards outside the U.S. and (f) privacy and cybersecurity regulation; (8) technological changes which may adversely impact companies in our investment portfolio or cause insurance experience to deviate from our assumptions; (9) an inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (10) ratings downgrades; (11) market conditions that may adversely affect the sales or persistency of our products; (12) competition; (13) reputational damage; (14) the costs, effects, timing, or success of our plans to accelerate our Financial Wellness strategy; and (15) costs associated with the acquisition of Assurance IQ, Inc. and its integration into our Financial Wellness strategy. Prudential Financial, Inc. does not undertake to update any particular forward-looking statement included in this document. See “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2018 for discussion of certain risks relating to our businesses and investment in our securities.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position September 30, 2019 and December 31, 2018 (in millions, except share amounts)

	September 30, 2019	December 31, 2018
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2019-\$342,567; 2018-\$331,745)(1)	\$ 391,657	\$ 353,656
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2019-\$2,359; 2018-\$2,372)(1)	1,958	2,013
Fixed maturities, trading, at fair value (amortized cost: 2019-\$3,873; 2018-\$3,392)(1)	3,779	3,243
Assets supporting experience-rated contractholder liabilities, at fair value(1)	22,267	21,254
Equity securities, at fair value (cost: 2019-\$5,363; 2018-\$5,219)(1)	7,014	6,238
Commercial mortgage and other loans (includes \$551 and \$763 measured at fair value under the fair value option at September 30, 2019 and December 31, 2018, respectively)(1)	61,833	59,830
Policy loans	12,022	12,016
Other invested assets (includes \$5,955 and \$5,524 measured at fair value at September 30, 2019 and December 31, 2018, respectively)(1)	15,654	14,526
Short-term investments	7,320	6,469
Total investments	523,504	479,245
Cash and cash equivalents(1)	18,289	15,353
Accrued investment income(1)	3,248	3,318
Deferred policy acquisition costs	19,484	20,058
Value of business acquired	1,106	1,850
Other assets(1)	18,761	16,118
Separate account assets	301,234	279,136
TOTAL ASSETS	\$ 885,626	\$ 815,078
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 291,742	\$ 273,846
Policyholders' account balances	152,527	150,338
Policyholders' dividends	7,548	4,110
Securities sold under agreements to repurchase	9,241	9,950
Cash collateral for loaned securities	4,728	3,929
Income taxes	12,664	7,936
Short-term debt	1,490	2,451
Long-term debt	19,151	17,378
Other liabilities(1)	17,754	16,018
Notes issued by consolidated variable interest entities (includes \$807 and \$595 measured at fair value under the fair value option at September 30, 2019 and December 31, 2018, respectively)(1)	1,233	955
Separate account liabilities	301,234	279,136
Total liabilities	819,312	766,047
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 666,305,189 and 660,111,339 shares issued at September 30, 2019 and December 31, 2018, respectively)	6	6
Additional paid-in capital	25,351	24,828
Common Stock held in treasury, at cost (268,018,322 and 249,398,887 shares at September 30, 2019 and December 31, 2018, respectively)	(19,386)	(17,593)
Accumulated other comprehensive income (loss)	27,558	10,906
Retained earnings	32,269	30,470
Total Prudential Financial, Inc. equity	65,798	48,617
Noncontrolling interests	516	414
Total equity	66,314	49,031
TOTAL LIABILITIES AND EQUITY	\$ 885,626	\$ 815,078

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

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Operations
Three and Nine Months Ended September 30, 2019 and 2018 (in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
REVENUES				
Premiums	\$ 6,937	\$ 8,810	\$ 22,972	\$ 23,559
Policy charges and fee income	1,519	1,498	4,463	4,482
Net investment income	4,438	4,046	13,044	12,140
Asset management and service fees	1,038	1,037	3,137	3,073
Other income (loss)	320	606	2,217	45
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(186)	(32)	(298)	(129)
Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income	43	0	56	0
Other realized investment gains (losses), net	996	183	(7)	1,390
Total realized investment gains (losses), net	853	151	(249)	1,261
Total revenues	15,105	16,148	45,584	44,560
BENEFITS AND EXPENSES				
Policyholders' benefits	7,722	9,311	25,037	26,498
Interest credited to policyholders' account balances	1,106	1,030	3,729	2,474
Dividends to policyholders	667	446	1,681	1,314
Amortization of deferred policy acquisition costs	591	563	1,808	1,764
General and administrative expenses	3,294	2,960	9,588	8,729
Total benefits and expenses	13,380	14,310	41,843	40,779
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES				
Total income tax expense (benefit)	1,725	1,838	3,741	3,781
INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES				
Equity in earnings of operating joint ventures, net of taxes	32	21	85	62
NET INCOME (LOSS)	1,425	1,675	3,100	3,239
Less: Income (loss) attributable to noncontrolling interests	7	3	42	7
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	<u>\$ 1,418</u>	<u>\$ 1,672</u>	<u>\$ 3,058</u>	<u>\$ 3,232</u>
EARNINGS PER SHARE				
Basic earnings per share-Common Stock:				
Net income (loss) attributable to Prudential Financial, Inc.	<u>\$ 3.47</u>	<u>\$ 3.97</u>	<u>\$ 7.45</u>	<u>\$ 7.62</u>
Diluted earnings per share-Common Stock:				
Net income (loss) attributable to Prudential Financial, Inc.	<u>\$ 3.44</u>	<u>\$ 3.90</u>	<u>\$ 7.35</u>	<u>\$ 7.51</u>

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

**Unaudited Interim Consolidated Statements of Comprehensive Income
Three and Nine Months Ended September 30, 2019 and 2018 (in millions)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
NET INCOME (LOSS)	\$ 1,425	\$ 1,675	\$ 3,100	\$ 3,239
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	(174)	(274)	(66)	(315)
Net unrealized investment gains (losses)	4,776	(3,150)	21,571	(11,142)
Defined benefit pension and postretirement unrecognized periodic benefit (cost)	23	71	104	200
Total	4,625	(3,353)	21,609	(11,257)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	1,051	(843)	4,961	(2,525)
Other comprehensive income (loss), net of taxes	3,574	(2,510)	16,648	(8,732)
Comprehensive income (loss)	4,999	(835)	19,748	(5,493)
Less: Comprehensive income (loss) attributable to noncontrolling interests	5	(2)	45	5
Comprehensive income (loss) attributable to Prudential Financial, Inc.	\$ 4,994	\$ (833)	\$ 19,703	\$ (5,498)

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Equity
Three and Nine Months Ended September 30, 2019 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2018	\$ 6	\$ 24,828	\$ 30,470	\$ (17,593)	\$ 10,906	\$ 48,617	\$ 414	\$ 49,031
Cumulative effect of adoption of accounting changes(1)			(21)		7	(14)		(14)
Common Stock acquired				(500)		(500)		(500)
Contributions from noncontrolling interests							26	26
Distributions to noncontrolling interests							(4)	(4)
Stock-based compensation programs		(46)		131		85		85
Dividends declared on Common Stock			(415)			(415)		(415)
Comprehensive income:								
Net income (loss)			932			932	5	937
Other comprehensive income (loss), net of tax					6,305	6,305	(1)	6,304
Total comprehensive income (loss)						7,237	4	7,241
Balance, March 31, 2019	6	24,782	30,966	(17,962)	17,218	55,010	440	55,450
Common Stock acquired				(500)		(500)		(500)
Contributions from noncontrolling interests							25	25
Distributions to noncontrolling interests							(16)	(16)
Consolidations (deconsolidations) of noncontrolling interests							8	8
Stock-based compensation programs		43		46		89		89
Dividends declared on Common Stock			(411)			(411)		(411)
Comprehensive income:								
Net income (loss)			708			708	30	738
Other comprehensive income (loss), net of tax					6,764	6,764	6	6,770
Total comprehensive income (loss)						7,472	36	7,508
Balance, June 30, 2019	6	24,825	31,263	(18,416)	23,982	61,660	493	62,153
Common Stock acquired				(1,000)		(1,000)		(1,000)
Exchangeable Surplus Notes conversion		502				502		502
Contributions from noncontrolling interests							54	54
Distributions to noncontrolling interests							(36)	(36)
Stock-based compensation programs		24		30		54		54
Dividends declared on Common Stock			(412)			(412)		(412)
Comprehensive income:								
Net income (loss)			1,418			1,418	7	1,425
Other comprehensive income (loss), net of tax					3,576	3,576	(2)	3,574
Total comprehensive income (loss)						4,994	5	4,999
Balance, September 30, 2019	<u>\$ 6</u>	<u>\$ 25,351</u>	<u>\$ 32,269</u>	<u>\$ (19,386)</u>	<u>\$ 27,558</u>	<u>\$ 65,798</u>	<u>\$ 516</u>	<u>\$ 66,314</u>

(1) Includes the impact from the adoption of ASU 2017-08 and 2017-12. See Note 2.

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.
Unaudited Interim Consolidated Statements of Equity—Continued
Three and Nine Months Ended September 30, 2018 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2017	\$ 6	\$ 24,769	\$ 28,671	\$ (16,284)	\$ 17,074	\$ 54,236	\$ 275	\$ 54,511
Cumulative effect of adoption of ASU 2016-01			904		(847)	57		57
Cumulative effect of adoption of ASU 2018-02			(1,653)		1,653	0		0
Common Stock acquired				(375)		(375)		(375)
Contributions from noncontrolling interests							61	61
Distributions to noncontrolling interests							(5)	(5)
Stock-based compensation programs		(47)		102		55		55
Dividends declared on Common Stock			(387)			(387)		(387)
Comprehensive income:								
Net income (loss)			1,363			1,363	1	1,364
Other comprehensive income (loss), net of tax					(3,119)	(3,119)	13	(3,106)
Total comprehensive income (loss)						(1,756)	14	(1,742)
Balance, March 31, 2018	6	24,722	28,898	(16,557)	14,761	51,830	345	52,175
Common Stock acquired				(375)		(375)		(375)
Contributions from noncontrolling interests							38	38
Distributions to noncontrolling interests							(16)	(16)
Stock-based compensation programs		41		27		68		68
Dividends declared on Common Stock			(382)			(382)		(382)
Comprehensive income:								
Net income (loss)			197			197	3	200
Other comprehensive income (loss), net of tax					(3,106)	(3,106)	(10)	(3,116)
Total comprehensive income (loss)						(2,909)	(7)	(2,916)
Balance, June 30, 2018	6	24,763	28,713	(16,905)	11,655	48,232	360	48,592
Common Stock acquired				(375)		(375)		(375)
Contributions from noncontrolling interests							3	3
Distributions to noncontrolling interests							(5)	(5)
Consolidations (deconsolidations) of noncontrolling interests							1	1
Stock-based compensation programs		47		34		81		81
Dividends declared on Common Stock			(380)			(380)		(380)
Comprehensive income:								
Net income (loss)			1,672			1,672	3	1,675
Other comprehensive income (loss), net of tax					(2,505)	(2,505)	(5)	(2,510)
Total comprehensive income (loss)						(833)	(2)	(835)
Balance, September 30, 2018	<u>\$ 6</u>	<u>\$ 24,810</u>	<u>\$ 30,005</u>	<u>\$ (17,246)</u>	<u>\$ 9,150</u>	<u>\$ 46,725</u>	<u>\$ 357</u>	<u>\$ 47,082</u>

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2019 and 2018 (in millions)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 3,100	\$ 3,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	249	(1,261)
Policy charges and fee income	(2,117)	(1,642)
Interest credited to policyholders' account balances	3,729	2,474
Depreciation and amortization	352	45
(Gains) losses on assets supporting experience-rated contractholder liabilities, net	(832)	586
Change in:		
Deferred policy acquisition costs	(414)	(353)
Future policy benefits and other insurance liabilities	7,718	9,513
Income taxes	(245)	(127)
Derivatives, net	5,225	(2,587)
Other, net	(1,125)	381
Cash flows from (used in) operating activities	15,640	10,268
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	38,356	42,903
Fixed maturities, held-to-maturity	84	76
Fixed maturities, trading	284	527
Assets supporting experience-rated contractholder liabilities	11,631	20,122
Equity securities	2,087	2,913
Commercial mortgage and other loans	4,483	4,056
Policy loans	1,717	1,730
Other invested assets	1,074	1,151
Short-term investments	27,675	25,652
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(48,162)	(53,071)
Fixed maturities, trading	(733)	(760)
Assets supporting experience-rated contractholder liabilities	(11,731)	(19,671)
Equity securities	(2,094)	(2,543)
Commercial mortgage and other loans	(6,807)	(7,745)
Policy loans	(1,440)	(1,487)
Other invested assets	(1,667)	(1,713)
Short-term investments	(28,704)	(24,613)
Derivatives, net	1,170	(182)
Other, net	(339)	(286)
Cash flows from (used in) investing activities	(13,116)	(12,941)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders' account deposits	21,140	21,319
Policyholders' account withdrawals	(19,734)	(20,454)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	89	1,078
Cash dividends paid on Common Stock	(1,237)	(1,147)
Net change in financing arrangements (maturities 90 days or less)	(33)	189
Common Stock acquired	(1,940)	(1,112)
Common Stock reissued for exercise of stock options	107	107
Proceeds from the issuance of debt (maturities longer than 90 days)	2,923	2,790
Repayments of debt (maturities longer than 90 days)	(1,338)	(1,705)
Proceeds from notes issued by consolidated VIEs	925	0
Repayments of notes issued by consolidated VIEs	(638)	0
Other, net	94	(256)
Cash flows from (used in) financing activities	358	809
Effect of foreign exchange rate changes on cash balances	56	(68)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS	2,938	(1,932)
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, BEGINNING OF YEAR	15,495	14,536
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS, END OF PERIOD	\$ 18,433	\$ 12,604
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	\$ 174	\$ 134

Conversion of surplus notes into Common Stock	\$	502	\$	0
Significant Pension Risk Transfer transactions:				
Assets received, excluding cash and cash equivalents	\$	445	\$	332
Liabilities assumed		447		3,063
Net cash received	\$	2	\$	2,731
RECONCILIATION TO THE UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION				
Cash and cash equivalents	\$	18,289	\$	12,466
Restricted cash and restricted cash equivalents (included in "Other assets")		144		138
Total cash, cash equivalents, restricted cash and restricted cash equivalents	\$	18,433	\$	12,604

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.**Notes to Unaudited Interim Consolidated Financial Statements****1. BUSINESS AND BASIS OF PRESENTATION**

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

The Company’s principal operations are comprised of five divisions, which together encompass seven segments, and its Corporate and Other operations. The PGIM division is comprised of the PGIM segment, the global investment management businesses of the Company. The U.S. Workplace Solutions division consists of the Retirement and Group Insurance segments. The U.S. Individual Solutions division consists of the Individual Annuities and Individual Life segments. The Company also collectively refers to the U.S. Workplace Solutions division and the U.S. Individual Solutions division as the U.S. Financial Wellness businesses. The International Insurance division is comprised of the International Insurance segment, and the Closed Block division is comprised of the Closed Block segment. The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in the Company’s Corporate and Other operations. Divested and Run-off Businesses are comprised of businesses that have been, or will be, sold or exited, including businesses that have been placed in wind down status that do not qualify for “discontinued operations” accounting treatment under generally accepted accounting principles in the United States of America (“U.S. GAAP”). The Company’s Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested or placed in run-off, excluding the Closed Block division.

Basis of Presentation

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

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company’s Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Use of Estimates

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

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

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS**Recent Accounting Pronouncements**

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

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 2016-02

Effective January 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842), using the optional transition method with a cumulative effect adjustment recorded as of the beginning of the period of adoption. This ASU substantially changes a lessee’s accounting for leases and requires the recording, on balance sheet, using a dual lease accounting model, of a “right-of-use” asset and lease liability. Leases are to be classified as either operating or finance leases. Under the standard, for operating leases, lessees recognize total lease expenses using a straight-line method and finance leases are treated as the purchase of an asset on a financing basis. Accordingly, the impact of operating and finance lease expenses on the income statement is similar to prior guidance under Leases (Topic 840). For lessors, the standard modifies classification criteria and accounting for sales-type and direct financing leases and requires a lessor to derecognize the carrying value of the leased asset that is considered to have been transferred to a lessee and record a lease receivable and residual asset (“receivable and residual” approach). The standard also eliminates the leveraged lease accounting model for lessors and real estate specific provisions (i.e., those related to sale-leaseback transactions); it does allow, however, a grandfathering of the leveraged lease accounting model for those existing leases that are being accounted for using such model.

In addition, the Company elected the package of practical expedients permitted under the transition guidance within the standard which eliminated the need to reassess: (a) whether any existing contracts are, or contain, leases; (b) the lease classification for any existing leases (i.e., all existing lessee arrangements that were classified as operating leases before are now classified as operating leases, and all existing lessee arrangements that were classified as capital leases before are now classified as finance leases); and (c) initial direct costs for any existing leases. The Company did not elect the practical expedient, which may be applied separately, to use hindsight in determining the lease term and in assessing impairment of the Company’s right-of-use assets.

Adoption of the standard resulted in the recording of right-of-use assets and lease liabilities related to existing operating leases of approximately \$600 million as of January 1, 2019. Adoption of the standard also resulted in additional required disclosures. See Note 7 for additional information.

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

Other ASU adopted during the nine months ended September 30, 2019

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2017-08, <i>Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization on Purchased Callable Debt Securities</i>	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 which included cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption.	Adoption of the ASU did not have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. The impact of the cumulative-effect adjustment to retained earnings was immaterial.
ASU 2017-12, <i>Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</i>	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. The ASU eliminates separate measurement and recording of hedge ineffectiveness. It requires entities to present the earnings effect of the hedging instrument in the same income statement line item in which the hedged item is reported and also requires expanded disclosures.	January 1, 2019 using the modified retrospective method which included cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption.	Adoption of the ASU did not have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. The impact of the cumulative-effect adjustment to retained earnings and accumulated other comprehensive income (loss) ("AOCI") related to ineffectiveness of the hedge instruments outstanding at the date of adoption was immaterial. See Note 5 for additional required disclosures.

ASU issued but not yet adopted as of September 30, 2019 — ASU 2018-12

ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB on August 15, 2018 and is expected to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements. In October 2019, the FASB affirmed its decision to defer the effective date of the ASU to January 1, 2022 (with early adoption permitted), representing a one year extension from the original effective date of January 1, 2021. This ASU will impact, at least to some extent, the accounting and disclosure requirements for all long-duration insurance and investment contracts issued by the Company. Outlined below are four key areas of change, although there are other less significant changes not noted below. In addition to the impacts to the balance sheet upon adoption, the Company also expects an impact to how earnings emerge thereafter.

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

ASU 2018-12 Amended Topic	Description	Method of adoption	Effect on the financial statements or other significant matters
<i>Cash flow assumptions used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products</i>	Requires an entity to review, and if necessary, update the cash flow assumptions used to measure the liability for future policy benefits, for both changes in future assumptions and actual experience, at least annually using a retrospective update method with a cumulative catch-up adjustment recorded in a separate line item in the Consolidated Statements of Operations.	An entity may choose one of two adoption methods for the liability for future policy benefits: (1) a modified retrospective transition method whereby the entity will apply the amendments to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI or (2) a full retrospective transition method.	The options for method of adoption and the impacts of such methods are under assessment.
<i>Discount rate assumption used to measure the liability for future policy benefits for non-participating traditional and limited-pay insurance products</i>	Requires discount rate assumptions to be based on an upper-medium grade fixed income instrument yield and will be required to be updated each quarter with the impact recorded through Other Comprehensive Income (“OCI”).	As noted above, an entity may choose either a modified retrospective transition method or full retrospective transition method for the liability for future policy benefits. Under either method, for balance sheet remeasurement purposes, the liability for future policy benefits will be remeasured using current discount rates as of the beginning of the earliest period presented with the impact recorded as a cumulative effect adjustment to AOCI.	Upon adoption, under either transition method, there will be an adjustment to AOCI as a result of remeasuring in-force contract liabilities using current upper-medium grade fixed income instrument yields. The adjustment upon adoption will largely reflect the difference between the discount rate locked-in at contract inception versus current discount rates at transition. The magnitude of such adjustment is currently being assessed.
<i>Amortization of deferred acquisition costs (DAC) and other balances</i>	Requires DAC and other balances, such as unearned revenue reserves and deferred sales inducements, to be amortized on a constant level basis over the expected term of the related contract, independent of expected profitability.	An entity may apply one of two adoption methods: (1) a modified retrospective transition method whereby the entity will apply the amendments to contracts in force as of the beginning of the earliest period presented on the basis of their existing carrying amounts, adjusted for the removal of any related amounts in AOCI or (2) if an entity chooses a full retrospective transition method for its future policy benefits, as described above, it is required to also use a retrospective transition method for DAC and other balances.	The options for method of adoption and the impacts of such methods are under assessment. Under the modified retrospective transition method, the Company would not expect a significant impact to the balance sheet, other than the impact of the removal of any related amounts in AOCI.
<i>Market Risk Benefits</i>	Requires an entity to measure all market risk benefits (e.g., living benefit and death benefit guarantees associated with variable annuities) at fair value with changes in value attributable to changes in an entity’s non-performance risk (“NPR”) recognized in OCI.	An entity will apply a retrospective transition method which will include a cumulative-effect adjustment on the balance sheet as of the earliest period presented.	Upon adoption, the Company expects an impact to retained earnings for the difference between the fair value and carrying value of benefits not currently measured at fair value (e.g., guaranteed minimum death benefits on variable annuities) and an impact from reclassifying the cumulative effect of changes in NPR from retained earnings to AOCI. The magnitude of such adjustments is currently being assessed.

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

Other ASU issued but not yet adopted as of September 30, 2019

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	This ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held-to-maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard also modifies the current OTTI standard for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces the existing standard for purchased credit deteriorated loans and debt securities.	January 1, 2020 using the modified retrospective method which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. However, prospective application is required for purchased credit deteriorated assets previously accounted for under ASC 310-30 and for debt securities for which an OTTI was recognized prior to the date of adoption. Early adoption is permitted beginning January 1, 2019.	The Company continues to test and refine its expected credit loss models and related systems, processes and controls for assets held on the Consolidated Statement of Financial Position at amortized cost. We currently estimate the cumulative impact of the adoption will be a reduction to retained earnings of less than \$200 million, primarily attributable to the reserves for commercial mortgage and other loans.
ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This ASU simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test in current U.S. GAAP, which measures a goodwill impairment by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of the goodwill. Under the ASU, a goodwill impairment should be recorded for the amount by which the carrying amount of a reporting unit exceeds its fair value (capped by the total amount of goodwill allocated to the reporting unit).	January 1, 2020 using the prospective method (with early adoption permitted).	The Company does not plan to early adopt this ASU. The Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

3. INVESTMENTS

Fixed Maturity Securities

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

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

September 30, 2019					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	OTTI in AOCI(4)
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 28,937	\$ 6,770	\$ 7	\$ 35,700	\$ 0
Obligations of U.S. states and their political subdivisions	9,869	1,584	0	11,453	0
Foreign government bonds	98,451	22,962	53	121,360	(34)
U.S. public corporate securities	85,833	11,480	320	96,993	(5)
U.S. private corporate securities(1)	33,837	2,465	153	36,149	0
Foreign public corporate securities	27,336	3,190	117	30,409	(7)
Foreign private corporate securities	26,771	994	850	26,915	0
Asset-backed securities(2)	13,652	169	36	13,785	(82)
Commercial mortgage-backed securities	14,934	839	5	15,768	0
Residential mortgage-backed securities(3)	2,947	179	1	3,125	(1)
Total fixed maturities, available-for-sale(1)	<u>\$ 342,567</u>	<u>\$ 50,632</u>	<u>\$ 1,542</u>	<u>\$ 391,657</u>	<u>\$ (129)</u>

September 30, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value
Fixed maturities, held-to-maturity:				
Foreign government bonds	\$ 896	\$ 305	\$ 0	\$ 1,201
Foreign public corporate securities	651	69	0	720
Foreign private corporate securities	83	3	0	86
Residential mortgage-backed securities(3)	328	24	0	352
Total fixed maturities, held-to-maturity(5)	<u>\$ 1,958</u>	<u>\$ 401</u>	<u>\$ 0</u>	<u>\$ 2,359</u>

(1) Excludes notes with amortized cost of \$4,356 million (fair value, \$4,356 million), which have been offset with the associated debt under a netting agreement.

(2) Includes credit-tranched securities collateralized by loan obligations, auto loans, education loans, home equity loans and other asset types.

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

(4) Represents the amount of unrealized losses remaining in AOCI, from the impairment measurement date. Amount excludes \$361 million of net unrealized gains on impaired available-for-sale securities and \$1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(5) Excludes notes with amortized cost of \$4,914 million (fair value, \$5,362 million), which have been offset with the associated debt under a netting agreement.

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

	December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI(4)
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 28,242	\$ 2,994	\$ 642	\$ 30,594	\$ 0
Obligations of U.S. states and their political subdivisions	9,880	676	63	10,493	0
Foreign government bonds	96,710	16,714	314	113,110	0
U.S. public corporate securities	82,257	3,912	2,754	83,415	(2)
U.S. private corporate securities(1)	32,450	1,151	581	33,020	0
Foreign public corporate securities	27,671	2,061	531	29,201	(3)
Foreign private corporate securities	25,314	434	1,217	24,531	0
Asset-backed securities(2)	12,888	162	77	12,973	(160)
Commercial mortgage-backed securities	13,396	99	180	13,315	0
Residential mortgage-backed securities(3)	2,937	99	32	3,004	(1)
Total fixed maturities, available-for-sale(1)	\$ 331,745	\$ 28,302	\$ 6,391	\$ 353,656	\$ (166)

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity:				
Foreign government bonds	\$ 885	\$ 269	\$ 0	\$ 1,154
Foreign public corporate securities	668	64	0	732
Foreign private corporate securities	95	3	0	98
Residential mortgage-backed securities(3)	365	23	0	388
Total fixed maturities, held-to-maturity(5)	\$ 2,013	\$ 359	\$ 0	\$ 2,372

(1) Excludes notes with amortized cost of \$4,216 million (fair value, \$4,216 million), which have been offset with the associated debt under a netting agreement.

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

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

(4) Represents the amount of unrealized losses remaining in AOCI, from the impairment measurement date. Amount excludes \$356 million of net unrealized gains on impaired available-for-sale securities and \$1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(5) Excludes notes with amortized cost of \$4,879 million (fair value, \$4,879 million), which have been offset with the associated debt under a netting agreement.

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

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

	September 30, 2019					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(in millions)						
Fixed maturities(1):						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 1,185	\$ 7	\$ 64	\$ 0	\$ 1,249	\$ 7
Obligations of U.S. states and their political subdivisions	44	0	0	0	44	0
Foreign government bonds	1,177	49	134	4	1,311	53
U.S. public corporate securities	3,174	93	2,778	227	5,952	320
U.S. private corporate securities	1,243	54	1,791	99	3,034	153
Foreign public corporate securities	1,223	47	587	70	1,810	117
Foreign private corporate securities	3,217	76	6,304	774	9,521	850
Asset-backed securities	3,141	16	3,983	20	7,124	36
Commercial mortgage-backed securities	283	1	190	4	473	5
Residential mortgage-backed securities	40	0	117	1	157	1
Total	\$ 14,727	\$ 343	\$ 15,948	\$ 1,199	\$ 30,675	\$ 1,542

(1) As of September 30, 2019, there were no securities classified as held-to-maturity in a gross unrealized loss position.

	December 31, 2018					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(in millions)						
Fixed maturities(1):						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 3,007	\$ 67	\$ 6,986	\$ 575	\$ 9,993	\$ 642
Obligations of U.S. states and their political subdivisions	1,725	25	999	38	2,724	63
Foreign government bonds	2,369	136	3,515	178	5,884	314
U.S. public corporate securities	34,064	1,570	13,245	1,184	47,309	2,754
U.S. private corporate securities	8,923	225	7,985	356	16,908	581
Foreign public corporate securities	7,363	308	2,928	223	10,291	531
Foreign private corporate securities	12,218	692	4,468	525	16,686	1,217
Asset-backed securities	8,255	70	669	7	8,924	77
Commercial mortgage-backed securities	1,781	14	4,733	166	6,514	180
Residential mortgage-backed securities	194	1	1,042	31	1,236	32
Total	\$ 79,899	\$ 3,108	\$ 46,570	\$ 3,283	\$ 126,469	\$ 6,391

(1) As of December 31, 2018, there was \$13 million of fair value and less than \$1 million of gross unrealized losses, which are not reflected in AOCI, on securities classified as held-to-maturity.

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

As of September 30, 2019 and December 31, 2018, the gross unrealized losses on fixed maturity securities were composed of \$1,021 million and \$5,391 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 \$521 million and \$1,000 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of September 30, 2019, the \$1,199 million of gross unrealized losses of twelve months or more were concentrated in the Company’s corporate securities within the energy, consumer non-cyclical and finance sectors. As of December 31, 2018, the \$3,283 million of gross unrealized losses of twelve months or more were concentrated in U.S. government bonds and in the Company’s corporate securities within the utility, consumer non-cyclical and finance 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, 2018, the Company concluded that an adjustment to earnings for OTTI for these fixed maturity securities was not warranted at either September 30, 2019 or December 31, 2018. These conclusions were based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to general credit spread widening, increases in interest rates and foreign currency exchange rate movements. As of September 30, 2019, 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:

	September 30, 2019			
	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Fixed maturities:				
Due in one year or less	\$ 14,490	\$ 15,011	\$ 29	\$ 29
Due after one year through five years	50,551	53,730	114	117
Due after five years through ten years	66,752	73,205	595	664
Due after ten years(1)	179,241	217,033	892	1,197
Asset-backed securities	13,652	13,785	0	0
Commercial mortgage-backed securities	14,934	15,768	0	0
Residential mortgage-backed securities	2,947	3,125	328	352
Total	\$ 342,567	\$ 391,657	\$ 1,958	\$ 2,359

(1) Excludes available-for-sale notes with amortized cost of \$4,356 million (fair value, \$4,356 million) and held-to-maturity notes with amortized cost of \$4,914 million (fair value, \$5,362 million), which have been offset with the associated debt under a netting agreement.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Fixed maturities, available-for-sale:				
Proceeds from sales(1)	\$ 7,190	\$ 7,135	\$ 24,011	\$ 26,209
Proceeds from maturities/prepayments	5,315	4,941	14,507	16,720
Gross investment gains from sales and maturities	565	254	1,276	1,038
Gross investment losses from sales and maturities	(62)	(146)	(345)	(590)
OTTI recognized in earnings(2)	(143)	(32)	(242)	(129)
Fixed maturities, held-to-maturity:				
Proceeds from maturities/prepayments(3)	\$ 47	\$ 17	\$ 84	\$ 76

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

- (1) Includes \$162 million and \$26 million of non-cash related proceeds due to the timing of trade settlements for the nine months ended September 30, 2019 and 2018, respectively.
(2) Excludes the portion of OTTI amounts remaining in OCI, representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(3) Includes less than \$1 million of non-cash related proceeds due to the timing of trade settlements for both the nine months ended September 30, 2019 and 2018.

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Credit loss impairments:				
Balance in OCI, beginning of period	\$ 142	\$ 163	\$ 140	\$ 319
New credit loss impairments	38	1	58	1
Additional credit loss impairments on securities previously impaired	3	0	11	0
Increases due to the passage of time on previously recorded credit losses	2	2	5	8
Reductions for securities which matured, paid down, prepaid or were sold during the period	(9)	(5)	(36)	(160)
Reductions for securities impaired to fair value during the period(1)	(11)	(1)	(11)	(5)
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(1)	0	(3)	(3)
Balance in OCI, end of period	<u>\$ 164</u>	<u>\$ 160</u>	<u>\$ 164</u>	<u>\$ 160</u>

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

Assets Supporting Experience-Rated Contractholder Liabilities

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

	September 30, 2019		December 31, 2018	
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	\$ 489	\$ 489	\$ 215	\$ 215
Fixed maturities:				
Corporate securities	13,548	13,949	13,258	13,119
Commercial mortgage-backed securities	2,084	2,152	2,346	2,324
Residential mortgage-backed securities(1)	1,034	1,057	828	811
Asset-backed securities(2)	1,678	1,708	1,649	1,665
Foreign government bonds	798	819	1,087	1,083
U.S. government authorities and agencies and obligations of U.S. states	339	400	538	577
Total fixed maturities(3)	<u>19,481</u>	<u>20,085</u>	<u>19,706</u>	<u>19,579</u>
Equity securities	<u>1,474</u>	<u>1,693</u>	<u>1,378</u>	<u>1,460</u>
Total assets supporting experience-rated contractholder liabilities(4)	<u>\$ 21,444</u>	<u>\$ 22,267</u>	<u>\$ 21,299</u>	<u>\$ 21,254</u>

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

- (1) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(2) Includes collateralized loan obligations, auto loans, education loans, home equity loans and other asset types. Collateralized loan obligations at fair value were \$1,063 million and \$1,028 million as of September 30, 2019 and December 31, 2018, respectively, all of which were rated AAA.
(3) As a percentage of amortized cost, 94% and 93% of the portfolio was considered high or highest quality based on NAIC or equivalent ratings, as of September 30, 2019 and December 31, 2018, respectively.
(4) As a percentage of amortized cost, 78% of the portfolio consisted of public securities as of both September 30, 2019 and December 31, 2018.

The net change in unrealized gains (losses) from assets supporting experience-rated contractholder liabilities still held at period end, recorded within “Other income (loss),” was \$99 million and \$34 million during the three months ended September 30, 2019 and 2018, respectively, and \$868 million and \$(562) million during the nine months ended September 30, 2019 and 2018, respectively.

Equity Securities

The net change in unrealized gains (losses) from equity securities still held at period end, recorded within “Other income (loss),” was \$52 million and \$92 million during the three months ended September 30, 2019 and 2018, respectively, and \$632 million and \$(266) million during the nine months ended September 30, 2019 and 2018, respectively.

Concentrations of Financial Instruments

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

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

	September 30, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	\$ 73,835	\$ 90,680	\$ 71,952	\$ 84,461
Fixed maturities, held-to-maturity	874	1,170	864	1,127
Fixed maturities, trading	23	23	22	22
Assets supporting experience-rated contractholder liabilities	632	654	691	697
Total	\$ 75,364	\$ 92,527	\$ 73,529	\$ 86,307
	September 30, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	\$ 10,224	\$ 13,155	\$ 10,339	\$ 12,586
Assets supporting experience-rated contractholder liabilities	15	16	15	15
Total	\$ 10,239	\$ 13,171	\$ 10,354	\$ 12,601

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

Commercial Mortgage and Other Loans

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

	September 30, 2019		December 31, 2018	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial mortgage and agricultural property loans by property type:				
Office	\$ 12,809	21.0%	\$ 13,280	22.4%
Retail	8,385	13.7	8,639	14.6
Apartments/Multi-Family	17,112	28.0	16,538	28.0
Industrial	13,262	21.7	11,574	19.6
Hospitality	2,196	3.6	1,931	3.3
Other	3,862	6.3	3,846	6.5
Total commercial mortgage loans	57,626	94.3	55,808	94.4
Agricultural property loans	3,510	5.7	3,316	5.6
Total commercial mortgage and agricultural property loans by property type	61,136	100.0%	59,124	100.0%
Allowance for credit losses	(117)		(123)	
Total net commercial mortgage and agricultural property loans by property type	61,019		59,001	
Other loans:				
Uncollateralized loans	660		660	
Residential property loans	132		157	
Other collateralized loans	26		17	
Total other loans	818		834	
Allowance for credit losses	(4)		(5)	
Total net other loans	814		829	
Total commercial mortgage and other loans(1)	\$ 61,833		\$ 59,830	

(1) Includes loans held for sale which are carried at fair value and are collateralized primarily by apartment complexes. As of September 30, 2019 and December 31, 2018, the net carrying value of these loans was \$551 million and \$763 million, respectively.

As of September 30, 2019, the commercial mortgage and agricultural property loans were secured by properties geographically dispersed throughout the United States (with the largest concentrations in California (28%), Texas (9%) and New York (7%)) and included loans secured by properties in Europe (6%), Australia (1%) and Asia (1%).

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

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

	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
(in millions)						
Balance at December 31, 2017	\$ 97	\$ 3	\$ 1	\$ 0	\$ 5	\$ 106
Addition to (release of) allowance for credit losses	23	0	(1)	0	0	22
Charge-offs, net of recoveries	0	0	0	0	0	0
Change in foreign exchange	0	0	0	0	0	0
Balance at December 31, 2018	120	3	0	0	5	128
Addition to (release of) allowance for credit losses	(5)	0	0	0	(1)	(6)
Charge-offs, net of recoveries	(1)	0	0	0	0	(1)
Change in foreign exchange	0	0	0	0	0	0
Balance at September 30, 2019	<u>\$ 114</u>	<u>\$ 3</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4</u>	<u>\$ 121</u>

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

September 30, 2019						
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
(in millions)						
Allowance for credit losses:						
Individually evaluated for impairment	\$ 7	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7
Collectively evaluated for impairment	107	3	0	0	4	114
Total ending balance(1)	<u>\$ 114</u>	<u>\$ 3</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4</u>	<u>\$ 121</u>
Recorded investment(2):						
Individually evaluated for impairment	\$ 41	\$ 16	\$ 0	\$ 0	\$ 0	\$ 57
Collectively evaluated for impairment	57,585	3,494	132	26	660	61,897
Total ending balance(1)	<u>\$ 57,626</u>	<u>\$ 3,510</u>	<u>\$ 132</u>	<u>\$ 26</u>	<u>\$ 660</u>	<u>\$ 61,954</u>

(1) As of September 30, 2019, there were no loans acquired with deteriorated credit quality.

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

December 31, 2018						
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
(in millions)						
Allowance for credit losses:						
Individually evaluated for impairment	\$ 19	\$ 0	\$ 0	\$ 0	\$ 0	\$ 19
Collectively evaluated for impairment	101	3	0	0	5	109
Total ending balance(1)	<u>\$ 120</u>	<u>\$ 3</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ 128</u>
Recorded investment(2):						
Individually evaluated for impairment	\$ 67	\$ 35	\$ 0	\$ 0	\$ 2	\$ 104
Collectively evaluated for impairment	55,741	3,281	157	17	658	59,854
Total ending balance(1)	<u>\$ 55,808</u>	<u>\$ 3,316</u>	<u>\$ 157</u>	<u>\$ 17</u>	<u>\$ 660</u>	<u>\$ 59,958</u>

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

- (1) As of December 31, 2018, there were no loans acquired with deteriorated credit quality.
(2) Recorded investment reflects the carrying value gross of related allowance.

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

Commercial mortgage loans

	September 30, 2019			
	Debt Service Coverage Ratio			Total
	≥1.2X	1.0X to <1.2X	< 1.0X	
	(in millions)			
	Loan-to-Value Ratio:			
0%-59.99%	\$ 30,196	\$ 798	\$ 81	\$ 31,075
60%-69.99%	17,649	556	0	18,205
70%-79.99%	7,283	762	9	8,054
80% or greater	90	143	59	292
Total commercial mortgage loans	\$ 55,218	\$ 2,259	\$ 149	\$ 57,626

Agricultural property loans

	September 30, 2019							
	Debt Service Coverage Ratio			Total				
	≥1.2X	1.0X to <1.2X	< 1.0X					
	(in millions)							
Loan-to-Value Ratio:								
0%-59.99%	\$	3,234	\$	157	\$	14	\$	3,405
60%-69.99%		105		0		0		105
70%-79.99%		0		0		0		0
80% or greater		0		0		0		0
Total agricultural property loans	\$	3,339	\$	157	\$	14	\$	3,510

Total commercial mortgage and agricultural property loans

	September 30, 2019			
	Debt Service Coverage Ratio			Total
	≥1.2X	1.0X to <1.2X	< 1.0X	
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	\$ 33,430	\$ 955	\$ 95	\$ 34,480
60%-69.99%	17,754	556	0	18,310
70%-79.99%	7,283	762	9	8,054
80% or greater	90	143	59	292
Total commercial mortgage and agricultural property loans	\$ 58,557	\$ 2,416	\$ 163	\$ 61,136

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

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

Commercial mortgage loans

	December 31, 2018							
	Debt Service Coverage Ratio			Total				
	≥1.2X	1.0X to <1.2X	< 1.0X					
	(in millions)							
Loan-to-Value Ratio:								
0%-59.99%	\$	30,325	\$	538	\$	161	\$	31,024
60%-69.99%		16,538		621		0		17,159
70%-79.99%		6,324		754		41		7,119
80% or greater		332		142		32		506
Total commercial mortgage loans	\$	53,519	\$	2,055	\$	234	\$	55,808

Agricultural property loans

	December 31, 2018			
	Debt Service Coverage Ratio			Total
	≥1.2X	1.0X to <1.2X	< 1.0X	
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	\$ 2,997	\$ 198	\$ 57	\$ 3,252
60%-69.99%	64	0	0	64
70%-79.99%	0	0	0	0
80% or greater	0	0	0	0
Total agricultural property loans	\$ 3,061	\$ 198	\$ 57	\$ 3,316

Total commercial mortgage and agricultural property loans

	December 31, 2018			
	Debt Service Coverage Ratio			Total
	≥1.2X	1.0X to <1.2X	< 1.0X	
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	\$ 33,322	\$ 736	\$ 218	\$ 34,276
60%-69.99%	16,602	621	0	17,223
70%-79.99%	6,324	754	41	7,119
80% or greater	332	142	32	506
Total commercial mortgage and agricultural property loans	\$ 56,580	\$ 2,253	\$ 291	\$ 59,124

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:

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

	September 30, 2019						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Total Loans	Non-Accrual Status(2)
	(in millions)						
Commercial mortgage loans	\$ 57,626	\$ 0	\$ 0	\$ 0	\$ 0	\$ 57,626	\$ 21
Agricultural property loans	3,494	0	0	16	16	3,510	16
Residential property loans	129	1	1	1	3	132	1
Other collateralized loans	26	0	0	0	0	26	0
Uncollateralized loans	660	0	0	0	0	660	0
Total	<u>\$ 61,935</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 17</u>	<u>\$ 19</u>	<u>\$ 61,954</u>	<u>\$ 38</u>

(1) As of September 30, 2019, 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, 2018.

	December 31, 2018						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Total Loans	Non-Accrual Status(2)
	(in millions)						
Commercial mortgage loans	\$ 55,808	\$ 0	\$ 0	\$ 0	\$ 0	\$ 55,808	\$ 66
Agricultural property loans	3,301	0	0	15	15	3,316	18
Residential property loans	154	1	0	2	3	157	3
Other collateralized loans	17	0	0	0	0	17	0
Uncollateralized loans	660	0	0	0	0	660	0
Total	<u>\$ 59,940</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 17</u>	<u>\$ 18</u>	<u>\$ 59,958</u>	<u>\$ 87</u>

(1) As of December 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, 2018.

PRUDENTIAL FINANCIAL, INC.
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:

	September 30, 2019	December 31, 2018
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity	\$ 3,497	\$ 3,182
Hedge funds	1,721	1,337
Real estate-related	1,421	1,207
Subtotal equity method	6,639	5,726
Fair value:		
Private equity	1,656	1,684
Hedge funds	2,105	2,135
Real estate-related	342	296
Subtotal fair value	4,103	4,115
Total LPs/LLCs	10,742	9,841
Real estate held through direct ownership(1)	2,359	2,466
Derivative instruments	1,398	1,155
Other(2)	1,155	1,064
Total other invested assets	\$ 15,654	\$ 14,526

(1) As of September 30, 2019 and December 31, 2018, real estate held through direct ownership had mortgage debt of \$577 million and \$776 million, respectively.

(2) Primarily includes strategic investments made by investment management operations, leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding the Company’s holdings in the Federal Home Loan Banks of New York and Boston, see Note 16 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

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

Net Investment Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Fixed maturities, available-for-sale(1)	\$ 3,191	\$ 2,981	\$ 9,429	\$ 8,936
Fixed maturities, held-to-maturity(1)	58	57	173	169
Fixed maturities, trading	37	44	109	105
Assets supporting experience-rated contractholder liabilities, at fair value	191	181	558	553
Equity securities, at fair value	38	29	119	123
Commercial mortgage and other loans	636	586	1,863	1,749
Policy loans	160	154	463	462
Other invested assets	251	152	727	456
Short-term investments and cash equivalents	123	91	356	245
Gross investment income	4,685	4,275	13,797	12,798
Less: investment expenses	(247)	(229)	(753)	(658)
Net investment income	\$ 4,438	\$ 4,046	\$ 13,044	\$ 12,140

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

Realized Investment Gains (Losses), Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Fixed maturities(1)	\$ 360	\$ 76	\$ 689	\$ 319
Commercial mortgage and other loans	20	16	34	33
Investment real estate	38	(1)	38	61
LPs/LLCs	2	0	(1)	16
Derivatives	433	62	(1,010)	835
Other	0	(2)	1	(3)
Realized investment gains (losses), net	\$ 853	\$ 151	\$ (249)	\$ 1,261

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

Net Unrealized Gains (Losses) on Investments within AOCI

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

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

	September 30, 2019	December 31, 2018
	(in millions)	
Fixed maturity securities, available-for-sale—with OTTI	\$ 232	\$ 190
Fixed maturity securities, available-for-sale—all other	48,858	21,721
Derivatives designated as cash flow hedges(1)	1,584	811
Other investments(2)	(30)	(2)
Net unrealized gains (losses) on investments	<u>\$ 50,644</u>	<u>\$ 22,720</u>

(1) For more information on cash flow hedges, see Note 5.

(2) As of September 30, 2019, there were no net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in “Other assets.”

Repurchase Agreements and Securities Lending

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

	September 30, 2019			December 31, 2018		
	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 millions)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies(1)	\$ 8,985	\$ 0	\$ 8,985	\$ 9,418	\$ 171	\$ 9,589
U.S. public corporate securities	0	0	0	19	0	19
Residential mortgage-backed securities(1)	256	0	256	342	0	342
Total securities sold under agreements to repurchase(1)(2)	<u>\$ 9,241</u>	<u>\$ 0</u>	<u>\$ 9,241</u>	<u>\$ 9,779</u>	<u>\$ 171</u>	<u>\$ 9,950</u>

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

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

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

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

	September 30, 2019			December 31, 2018		
	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 millions)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 1	\$ 0	\$ 1	\$ 105	\$ 0	\$ 105
Obligations of U.S. states and their political subdivisions	44	0	44	88	0	88
Foreign government bonds	367	0	367	325	0	325
U.S. public corporate securities	3,295	0	3,295	2,563	0	2,563
Foreign public corporate securities	795	0	795	693	0	693
Equity securities	226	0	226	155	0	155
Total cash collateral for loaned securities(1)	\$ 4,728	\$ 0	\$ 4,728	\$ 3,929	\$ 0	\$ 3,929

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

4. VARIABLE INTEREST ENTITIES

In the normal course of its activities, the Company enters into relationships with various special-purpose entities and other entities that are deemed to be variable interest entities (“VIEs”). For additional information, see Note 4 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Consolidated Variable Interest Entities

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

	Consolidated VIEs for which the Company is the Investment Manager(1)		Other Consolidated VIEs(1)	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
	(in millions)			
Fixed maturities, available-for-sale	\$ 107	\$ 73	\$ 291	\$ 282
Fixed maturities, held-to-maturity	83	95	843	831
Fixed maturities, trading	1,134	1,076	0	0
Assets supporting experience-rated contractholder liabilities	0	0	4	8
Equity securities	54	41	0	0
Commercial mortgage and other loans	765	730	0	0
Other invested assets	1,955	1,526	97	77
Cash and cash equivalents	136	131	0	0
Accrued investment income	4	5	4	4
Other assets	455	463	705	721
Total assets of consolidated VIEs	\$ 4,693	\$ 4,140	\$ 1,944	\$ 1,923
Other liabilities	\$ 310	\$ 295	\$ 17	\$ 17
Notes issued by consolidated VIEs(2)	1,233	955	0	0
Total liabilities of consolidated VIEs	\$ 1,543	\$ 1,250	\$ 17	\$ 17

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

- (1) Total assets of consolidated VIEs reflect \$2,370 million and \$2,013 million as of September 30, 2019 and December 31, 2018, respectively, related to VIEs whose beneficial interests are wholly-owned by consolidated subsidiaries.
- (2) Recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company. As of September 30, 2019 and December 31, 2018, the maturities of these obligations were greater than five years.

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager. The Company's maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its investment in the VIEs, which was \$960 million and \$836 million at September 30, 2019 and December 31, 2018, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Fixed maturities, trading," "Equity securities" and "Other invested assets." There are no liabilities associated with these unconsolidated VIEs on the Company's Unaudited Interim Consolidated Statements of Financial Position.

In the normal course of its activities, the Company will invest in limited partnerships and limited liability companies ("LPs/LLCs"), which include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company classifies these investments as "Other invested assets" and its maximum exposure to loss associated with these entities was \$10,742 million and \$9,841 million as of September 30, 2019 and December 31, 2018, respectively.

In addition, in the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the investment manager. These structured investments typically invest in fixed income investments and are managed by third-parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company's maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. See Note 3 for details regarding the carrying amounts and classification of these assets. The Company has not provided material financial or other support that was not contractually required to these structures. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not control these entities.

5. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

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

- Interest rate contracts: futures, swaps, forwards, options, 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 types of financial contracts that the Company accounts for as derivatives are:

- To-be-announced ("TBA") forward contracts, loan commitments, embedded derivatives and synthetic guaranteed investment contracts ("GICs").

For detailed information on these contracts and the related strategies, see Note 5 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Primary Risks Managed by Derivatives

The table below provides a summary of the gross notional amount and fair value of derivatives contracts by the primary underlying risks, excluding embedded derivatives and associated reinsurance recoverables. Many derivative instruments contain multiple underlying risks. The fair value amounts below represent the value of derivative contracts prior to taking into account the netting effects of master netting agreements, cash collateral and non-performance risk ("NPR"). This netting impact results in total derivative assets of \$1,389 million and \$1,148 million as of September 30, 2019 and December 31, 2018, respectively, and total derivative liabilities of \$134 million and \$127 million as of September 30, 2019 and December 31, 2018, respectively, reflected in the Unaudited Interim Consolidated Statements of Financial Position.

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

Primary Underlying Risk /Instrument Type	September 30, 2019			December 31, 2018			
	Gross Notional	Fair Value		Gross Notional	Fair Value		
		Assets	Liabilities		Assets	Liabilities	
							(in millions)
Derivatives Designated as Hedge Accounting Instruments:							
Interest Rate							
Interest Rate Swaps	\$ 3,148	\$ 815	\$ (83)	\$ 3,885	\$ 305	\$ (67)	
Interest Rate Forwards	106	10	0	600	26	0	
Foreign Currency							
Foreign Currency Forwards	1,480	57	(11)	722	26	(2)	
Currency/Interest Rate							
Foreign Currency Swaps	21,698	2,245	(145)	20,724	1,520	(358)	
Total Derivatives Designated as Hedge Accounting Instruments	\$ 26,432	\$ 3,127	\$ (239)	\$ 25,931	\$ 1,877	\$ (427)	
Derivatives Not Qualifying as Hedge Accounting Instruments:							
Interest Rate							
Interest Rate Swaps	\$ 140,554	\$ 13,558	\$ (6,471)	\$ 140,963	\$ 5,792	\$ (3,435)	
Interest Rate Futures	21,598	6	(3)	13,991	23	(2)	
Interest Rate Options	17,983	899	(252)	24,002	147	(314)	
Interest Rate Forwards	2,199	24	0	5,049	72	0	
Foreign Currency							
Foreign Currency Forwards	25,553	359	(127)	19,849	246	(138)	
Foreign Currency Options	0	0	0	2	0	0	
Currency/Interest Rate							
Foreign Currency Swaps	13,626	990	(387)	13,784	773	(421)	
Credit							
Credit Default Swaps	1,033	18	(15)	5,207	33	(23)	
Equity							
Equity Futures	1,398	0	(5)	1,141	0	(8)	
Equity Options	34,498	401	(625)	58,693	384	(554)	
Total Return Swaps	17,942	135	(153)	17,309	1,131	(86)	
Other							
Other(1)	1,257	0	0	508	0	0	
Synthetic GICs	80,102	1	0	79,215	2	0	
Total Derivatives Not Qualifying as Hedge Accounting Instruments	\$ 357,743	\$ 16,391	\$ (8,038)	\$ 379,713	\$ 8,603	\$ (4,981)	
Total Derivatives(2)(3)	\$ 384,175	\$ 19,518	\$ (8,277)	\$ 405,644	\$ 10,480	\$ (5,408)	

(1) "Other" primarily includes derivative contracts used to improve the balance of the Company's tail longevity and mortality risk. Under these contracts, the Company's gains (losses) are capped at the notional amount.

(2) Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlying risks. The fair value of these embedded derivatives was a net liability of \$17,463 million and \$8,959 million as of September 30, 2019 and December 31, 2018, respectively, primarily included in "Future policy benefits."

(3) Recorded in "Other invested assets" and "Other liabilities" on the Unaudited Interim Consolidated Statements of Financial Position.

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

As of September 30, 2019, the following amounts were recorded on the Unaudited Interim Consolidated Statements of Financial Position related to the carrying amount of the hedged assets (liabilities) and cumulative basis adjustments included in the carrying amount for fair value hedges.

Balance Sheet Line Item in which Hedged Item is Recorded	Carrying Amount of the Hedged Assets (Liabilities)		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets (Liabilities)(1)	
	(in millions)			
Fixed maturities, available-for-sale, at fair value	\$	395	\$	71
Commercial mortgage and other loans	\$	24	\$	2
Policyholders' account balances	\$	(1,456)	\$	(201)
Future policy benefits	\$	(751)	\$	(253)

(1) There were no fair value hedging adjustments for hedged assets and liabilities for which hedge accounting has been discontinued.

Most of the Company's derivatives do not qualify for hedge accounting for various reasons. For example: (i) derivatives that economically hedge embedded derivatives do not qualify for hedge accounting because changes in the fair value of the embedded derivatives are already recorded in net income; (ii) derivatives that are utilized as macro hedges of the Company's exposure to various risks typically do not qualify for hedge accounting because they do not meet the criteria required under portfolio hedge accounting rules; and (iii) synthetic GICs, which are product standalone derivatives, do not qualify as hedging instruments under hedge accounting rules.

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.

	September 30, 2019				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position (in millions)	Financial Instruments/ Collateral(1)	Net Amount
Offsetting of Financial Assets:					
Derivatives(1)	\$ 19,426	\$ (18,128)	\$ 1,298	\$ (1,034)	\$ 264
Securities purchased under agreement to resell	1,437	0	1,437	(1,437)	0
Total assets	\$ 20,863	\$ (18,128)	\$ 2,735	\$ (2,471)	\$ 264
Offsetting of Financial Liabilities:					
Derivatives(1)	\$ 8,264	\$ (8,143)	\$ 121	\$ (97)	\$ 24
Securities sold under agreement to repurchase	9,241	0	9,241	(9,241)	0
Total liabilities	\$ 17,505	\$ (8,143)	\$ 9,362	\$ (9,338)	\$ 24

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

	December 31, 2018				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position (in millions)	Financial Instruments/ Collateral(1)	Net Amount
Offsetting of Financial Assets:					
Derivatives(1)	\$ 10,407	\$ (9,331)	\$ 1,076	\$ (614)	\$ 462
Securities purchased under agreement to resell	986	0	986	(986)	0
Total assets	<u>\$ 11,393</u>	<u>\$ (9,331)</u>	<u>\$ 2,062</u>	<u>\$ (1,600)</u>	<u>\$ 462</u>
Offsetting of Financial Liabilities:					
Derivatives(1)	\$ 5,387	\$ (5,281)	\$ 106	\$ (45)	\$ 61
Securities sold under agreement to repurchase	9,950	0	9,950	(9,950)	0
Total liabilities	<u>\$ 15,337</u>	<u>\$ (5,281)</u>	<u>\$ 10,056</u>	<u>\$ (9,995)</u>	<u>\$ 61</u>

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

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above, see “—Counterparty Credit Risk” below. 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 Company’s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2018.

Fair Value, Cash Flow and Net Investment Hedges

The primary derivative instruments used by the Company in its fair value, cash flow and net investment hedge accounting relationships are interest rate swaps, currency swaps and currency forwards. 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 fair value, cash flow or net investment hedge accounting relationships.

The following table provides the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, including the offset of the hedged item in fair value hedge relationships.

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

	Three Months Ended September 30, 2019						
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders' Account Balances	Policyholders' Benefits	AOI(1)
	(in millions)						
Derivatives Designated as Hedge Accounting Instruments:							
Fair value hedges							
Gains (losses) on derivatives designated as hedge instruments:							
Interest Rate	\$ (10)	\$ (2)	\$ 0	\$ 0	\$ 115	\$ 102	\$ 0
Currency	1	0	0	0	0	0	0
Total gains (losses) on derivatives designated as hedge instruments	(9)	(2)	0	0	115	102	0
Gains (losses) on the hedged item:							
Interest Rate	10	5	0	0	(116)	(103)	0
Currency	(1)	1	0	0	0	0	0
Total gains (losses) on hedged item	9	6	0	0	(116)	(103)	0
Total gains (losses) on fair value hedges net of hedged item	0	4	0	0	(1)	(1)	0
Cash flow hedges							
Interest Rate	56	1	0	0	0	0	(38)
Currency	3	0	0	0	0	0	4
Currency/Interest Rate	57	70	140	0	0	0	601
Total gains (losses) on cash flow hedges	116	71	140	0	0	0	567
Net investment hedges							
Currency	0	0	0	0	0	0	9
Currency/Interest Rate	0	0	0	0	0	0	0
Total gains (losses) on net investment hedges	0	0	0	0	0	0	9
Derivatives Not Qualifying as Hedge Accounting Instruments:							
Interest Rate	3,356	0	0	0	0	0	0
Currency	158	0	5	0	0	0	0
Currency/Interest Rate	364	0	2	0	0	0	0
Credit	4	0	0	0	0	0	0
Equity	(133)	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Embedded Derivatives	(3,427)	0	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	322	0	7	0	0	0	0
Total	\$ 438	\$ 75	\$ 147	\$ 0	\$ (1)	\$ (1)	\$ 576

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

	Nine Months Ended September 30, 2019						
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders’ Account Balances	Policyholders’ Benefits	AOCI(1)
	(in millions)						
Derivatives Designated as Hedge Accounting Instruments:							
Fair value hedges							
Gains (losses) on derivatives designated as hedge instruments:							
Interest Rate	\$ (24)	\$ (5)	\$ 0	\$ 0	\$ 283	\$ 233	\$ 0
Currency	2	0	0	0	0	0	0
Total gains (losses) on derivatives designated as hedge instruments	(22)	(5)	0	0	283	233	0
Gains (losses) on the hedged item:							
Interest Rate	21	16	0	0	(280)	(222)	0
Currency	(1)	2	0	0	0	0	0
Total gains (losses) on hedged item	20	18	0	0	(280)	(222)	0
Total gains (losses) on fair value hedges net of hedged item	(2)	13	0	0	3	11	0
Cash flow hedges							
Interest Rate	55	1	0	0	0	0	(16)
Currency	5	0	0	0	0	0	9
Currency/Interest Rate	96	207	135	0	0	0	771
Total gains (losses) on cash flow hedges	156	208	135	0	0	0	764
Net investment hedges							
Currency	0	0	0	0	0	0	12
Currency/Interest Rate	0	0	0	0	0	0	0
Total gains (losses) on net investment hedges	0	0	0	0	0	0	12
Derivatives Not Qualifying as Hedge Accounting Instruments:							
Interest Rate	7,090	0	0	0	0	0	0
Currency	242	0	4	0	0	0	0
Currency/Interest Rate	568	0	2	0	0	0	0
Credit	107	0	0	0	0	0	0
Equity	(2,560)	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Embedded Derivatives	(6,607)	0	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	(1,160)	0	6	0	0	0	0
Total	\$ (1,006)	\$ 221	\$ 141	\$ 0	\$ 3	\$ 11	\$ 776

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

	Three Months Ended September 30, 2018(2)					
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders' Account Balances	AOCI(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Gains (losses) on derivatives designated as hedge instruments:						
Interest Rate	\$ 6	\$ (2)	\$ 0	\$ 0	\$ (39)	\$ 0
Currency	(1)	0	0	0	0	0
Total gains (losses) on derivatives designated as hedge instruments	5	(2)	0	0	(39)	0
Gains (losses) on the hedged item:						
Interest Rate	(6)	6	0	0	42	0
Currency	1	1	0	0	0	0
Total gains (losses) on hedged item	(5)	7	0	0	42	0
Total gains (losses) on fair value hedges net of hedged item	0	5	0	0	3	0
Cash flow hedges						
Interest Rate	0	0	0	0	0	7
Currency	1	0	0	0	0	4
Currency/Interest Rate	26	56	42	0	0	29
Total gains (losses) on cash flow hedges	27	56	42	0	0	40
Net investment hedges						
Currency	0	0	0	0	0	0
Currency/Interest Rate	0	0	0	0	0	0
Total gains (losses) on net investment hedges	0	0	0	0	0	0
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(960)	0	0	0	0	0
Currency	(140)	0	(1)	0	0	0
Currency/Interest Rate	200	0	1	0	0	0
Credit	15	0	0	0	0	0
Equity	(674)	0	0	0	0	0
Other	1	0	0	0	0	0
Embedded Derivatives	1,596	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	38	0	0	0	0	0
Total	\$ 65	\$ 61	\$ 42	\$ 0	\$ 3	\$ 40

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

	Nine Months Ended September 30, 2018(2)					
	Realized Investment Gains (Losses)	Net Investment Income	Other Income (Loss)	Interest Expense	Interest Credited to Policyholders' Account Balances	AOCI(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Gains (losses) on derivatives designated as hedge instruments:						
Interest Rate	\$ 28	\$ (8)	\$ 0	\$ 0	\$ (150)	\$ 0
Currency	1	0	0	0	0	0
Total gains (losses) on derivatives designated as hedge instruments	29	(8)	0	0	(150)	0
Gains (losses) on the hedged item:						
Interest Rate	(30)	25	0	0	157	0
Currency	(2)	3	0	0	0	0
Total gains (losses) on hedged item	(32)	28	0	0	157	0
Total gains (losses) on fair value hedges net of hedged item	(3)	20	0	0	7	0
Cash flow hedges						
Interest Rate	3	0	0	(1)	0	13
Currency	1	0	0	0	0	13
Currency/Interest Rate	53	156	159	0	0	152
Total gains (losses) on cash flow hedges	57	156	159	(1)	0	178
Net investment hedges						
Currency	0	0	0	0	0	3
Currency/Interest Rate	0	0	0	0	0	0
Total gains (losses) on net investment hedges	0	0	0	0	0	3
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(2,909)	0	0	0	0	0
Currency	140	0	0	0	0	0
Currency/Interest Rate	225	0	2	0	0	0
Credit	10	0	0	0	0	0
Equity	(923)	0	0	0	0	0
Other	0	0	0	0	0	0
Embedded Derivatives	4,233	0	0	0	0	0
Total gains (losses) on derivatives not qualifying as hedge accounting instruments	776	0	2	0	0	0
Total	\$ 830	\$ 176	\$ 161	\$ (1)	\$ 7	\$ 181

(1) Net change in AOCI.

(2) Prior period amounts have been updated to conform to current period presentation.

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

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

	(in millions)
Balance, December 31, 2018	\$ 811
Cumulative-effect adjustment from the adoption of ASU 2017-12(1)	9
Amount recorded in AOCI	
Interest Rate	40
Currency	14
Currency/Interest Rate	1,209
Total amount recorded in AOCI	1,263
Amount reclassified from AOCI to income	
Interest Rate	(56)
Currency	(5)
Currency/Interest Rate	(438)
Total amount reclassified from AOCI to income	(499)
Balance, September 30, 2019	\$ 1,584

(1) See Note 2 for details.

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 Comprehensive Income; these amounts are then reclassified to earnings when the hedged item affects earnings. Using September 30, 2019 values, it is estimated that a pre-tax gain of approximately \$286 million is expected to be reclassified from AOCI to earnings during the subsequent twelve months ending September 30, 2020, offset by amounts pertaining to the hedged items.

The exposures the Company is hedging with these qualifying cash flow hedges include the variability of future cash flows from forecasted transactions denominated in foreign currencies, the purchases of invested assets, and the receipt or payment of variable interest on existing financial instruments. The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is 10 years.

There were no material amounts reclassified from AOCI 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. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment within AOCI were \$544 million and \$532 million as of September 30, 2019 and December 31, 2018, respectively.

Credit Derivatives

Credit derivatives, where the Company has written credit protection on a single name reference, had outstanding notional amounts of \$100 million and \$110 million as of September 30, 2019 and December 31, 2018, respectively. These credit derivatives are reported at fair value as an asset of \$1 million as of both September 30, 2019 and December 31, 2018. As of September 30, 2019, the notional amount of these credit derivatives had the following NAIC ratings: \$48 million in NAIC 1; \$48 million in NAIC 2; and \$4 million in NAIC 3. The Company has also written credit protection on certain index references with notional amounts of \$659 million and \$4,953 million as of September 30, 2019 and December 31, 2018, respectively. These credit derivatives are reported at fair value as an asset of \$16 million and \$10 million as of September 30, 2019 and December 31, 2018, respectively. As of September 30, 2019, the notional amount of these credit derivatives had the following NAIC ratings: \$50 million in NAIC 1; \$500 million in NAIC 3; and \$109 million NAIC 6. NAIC designations are based on the lowest rated single name reference included in the index.

The Company’s maximum amount at risk under these credit derivatives equals the aforementioned notional amounts and assumes the value of the underlying referenced securities become worthless. The single name credit derivatives have maturities of less than 1 year, while the index references have maturities of less than 28 years.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio. As of September 30, 2019 and December 31, 2018, the Company had \$274 million and \$145 million of outstanding notional amounts and reported at fair value as a liability of \$14 million and \$1 million, respectively.

Counterparty Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions with a positive fair value. The Company manages credit risk by: (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreements, as applicable; (ii) trading through central clearing and over-the-counter ("OTC") parties; (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. In addition, certain of the Company's derivative agreements contain credit-risk related contingent features; if the credit rating of one of the parties to the derivative agreement is to fall below a certain level, the party with positive fair value could request termination at the then fair value or demand immediate full collateralization from the party whose credit rating fell and is in a net liability position.

As of September 30, 2019, there were no net liability derivative positions with counterparties with credit risk-related contingent features; as such, all derivatives have been appropriately collateralized by the Company or the counterparty in accordance with the terms of the derivative agreements.

6. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

For a discussion of Company's valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see Note 6 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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.

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

	As of September 30, 2019				
	Level 1	Level 2	Level 3 (in millions)	Netting(1)	Total
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 35,601	\$ 99	\$	\$ 35,700
Obligations of U.S. states and their political subdivisions	0	11,449	4		11,453
Foreign government bonds	0	121,338	22		121,360
U.S. corporate public securities	0	96,551	442		96,993
U.S. corporate private securities(2)	0	34,385	1,764		36,149
Foreign corporate public securities	0	30,335	74		30,409
Foreign corporate private securities	0	26,016	899		26,915
Asset-backed securities(3)	0	12,629	1,156		13,785
Commercial mortgage-backed securities	0	15,765	3		15,768
Residential mortgage-backed securities	0	3,109	16		3,125
Subtotal	0	387,178	4,479		391,657
Assets supporting experience-rated contractholder liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	183	0		183
Obligations of U.S. states and their political subdivisions	0	217	0		217
Foreign government bonds	0	793	26		819
Corporate securities	0	13,289	660		13,949
Asset-backed securities(3)	0	1,633	75		1,708
Commercial mortgage-backed securities	0	2,152	0		2,152
Residential mortgage-backed securities	0	1,057	0		1,057
Equity securities	1,429	263	1		1,693
All other(4)	50	436	3		489
Subtotal	1,479	20,023	765		22,267
Fixed maturities, trading	0	3,475	304		3,779
Equity securities	5,353	881	643		6,877
Commercial mortgage and other loans	0	551	0		551
Other invested assets(5)	7	19,509	464	(18,128)	1,852
Short-term investments	3,209	2,180	294		5,683
Cash equivalents	1,472	8,054	1		9,527
Other assets	0	0	179		179
Separate account assets(6)(7)	43,534	232,617	1,660		277,811
Total assets	\$ 55,054	\$ 674,468	\$ 8,789	\$ (18,128)	\$ 720,183
Future policy benefits(8)	\$ 0	\$ 0	\$ 16,452	\$	\$ 16,452
Policyholders' account balances	0	0	1,188		1,188
Other liabilities	8	8,269	0	(8,143)	134
Notes issued by consolidated VIEs	0	0	807		807
Total liabilities	\$ 8	\$ 8,269	\$ 18,447	\$ (8,143)	\$ 18,581

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

	As of December 31, 2018				
	Level 1	Level 2	Level 3 (in millions)	Netting(1)	Total
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 0	\$ 30,513	\$ 81	\$	\$ 30,594
Obligations of U.S. states and their political subdivisions	0	10,488	5		10,493
Foreign government bonds	0	112,985	125		113,110
U.S. corporate public securities	0	83,282	133		83,415
U.S. corporate private securities(2)	0	31,265	1,755		33,020
Foreign corporate public securities	0	29,148	53		29,201
Foreign corporate private securities	0	23,787	744		24,531
Asset-backed securities(3)	0	11,726	1,247		12,973
Commercial mortgage-backed securities	0	13,302	13		13,315
Residential mortgage-backed securities	0	2,925	79		3,004
Subtotal	0	349,421	4,235		353,656
Assets supporting experience-rated contractholder liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	381	0		381
Obligations of U.S. states and their political subdivisions	0	196	0		196
Foreign government bonds	0	858	225		1,083
Corporate securities	0	12,675	444		13,119
Asset-backed securities(3)	0	1,516	149		1,665
Commercial mortgage-backed securities	0	2,324	0		2,324
Residential mortgage-backed securities	0	811	0		811
Equity securities	1,222	237	1		1,460
All other(4)	0	215	0		215
Subtotal	1,222	19,213	819		21,254
Fixed maturities, trading	0	3,037	206		3,243
Equity securities	4,819	610	671		6,100
Commercial mortgage and other loans	0	763	0		763
Other invested assets(5)	23	10,454	263	(9,331)	1,409
Short-term investments	2,713	2,691	89		5,493
Cash equivalents	2,848	6,553	77		9,478
Other assets	0	0	25		25
Separate account assets(6)(7)	39,534	212,998	1,534		254,066
Total assets	\$ 51,159	\$ 605,740	\$ 7,919	\$ (9,331)	\$ 655,487
Future policy benefits(8)	\$ 0	\$ 0	\$ 8,926	\$	\$ 8,926
Policyholders' account balances	0	0	56		56
Other liabilities	18	5,398	0	(5,281)	135
Notes issued by consolidated VIEs	0	0	595		595
Total liabilities	\$ 18	\$ 5,398	\$ 9,577	\$ (5,281)	\$ 9,712

(1) "Netting" amounts represent cash collateral of \$9,985 million and \$4,050 million as of September 30, 2019 and December 31, 2018, respectively.

(2) Excludes notes with fair value of \$4,356 million (carrying amount of \$4,356 million) and \$4,216 million (carrying amount of \$4,216 million) as of September 30, 2019 and December 31, 2018, respectively, which have been offset with the associated payables under a netting agreement.

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

(4) All other represents cash equivalents and short-term investments.

(5) 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 September 30, 2019 and December 31, 2018, the fair values of such investments were \$4,103 million and \$4,115 million respectively.

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

- (6) Separate account assets included in the fair value hierarchy exclude investments in entities that calculate NAV per share (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy include investments in real estate, hedge funds and other invested assets. As of September 30, 2019 and December 31, 2018, the fair value of such investments was \$23,423 million and \$25,070 million, respectively.
- (7) 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.
- (8) As of September 30, 2019, the net embedded derivative liability position of \$16.4 billion includes \$0.5 billion of embedded derivatives in an asset position and \$16.9 billion of embedded derivatives in a liability position. As of December 31, 2018, the net embedded derivative liability position of \$8.9 billion includes \$0.7 billion of embedded derivatives in an asset position and \$9.6 billion of embedded derivatives in a liability position.

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

As of September 30, 2019							
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
	(in millions)						
Assets:							
Corporate securities(2)	\$ 1,507	Discounted cash flow	Discount rate	0.26%	20%	8.19%	Decrease
		Market comparables	EBITDA multiples(3)	5.7X	9.2X	7.3X	Increase
		Liquidation	Liquidation value	8.27%	42.52%	32.49%	Increase
Separate account assets-commercial mortgage loans(4)	\$ 828	Discounted cash flow	Spread	1.14%	2.29%	1.34%	Decrease
Liabilities:							
Future policy benefits(5)	\$ 16,452	Discounted cash flow	Lapse rate(7)	1%	18%		Decrease
			Spread over LIBOR(8)	0.16%	1.46%		Decrease
			Utilization rate(9)	43%	97%		Increase
			Withdrawal rate		See table footnote (10) below.		
			Mortality rate(11)	0%	15%		Decrease
			Equity volatility curve	14%	23%		Increase
Policyholders' account balances(6)	\$ 1,188	Discounted cash flow	Lapse rate(7)	1%	42%		Decrease
			Spread over LIBOR(8)	0.16%	1.46%		Decrease
			Mortality rate(11)	0%	24%		Decrease
			Equity volatility curve	11%	25%		Increase

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

As of December 31, 2018

	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
	(in millions)						
Assets:							
Corporate securities(2)	\$ 1,392	Discounted cash flow	Discount rate	0.57%	20%	8.58%	Decrease
		Market comparables	EBITDA multiples(3)	4.5X	8.5X	8.1X	Increase
		Liquidation	Liquidation value	11.77%	94%	32.16%	Increase
Separate account assets-commercial mortgage loans(4)	\$ 785	Discounted cash flow	Spread	1.12%	2.55%	1.29%	Decrease
Liabilities:							
Future policy benefits(5)	\$ 8,926	Discounted cash flow	Lapse rate(7)	1%	13%		Decrease
			Spread over LIBOR(8)	0.36%	1.60%		Decrease
			Utilization rate(9)	50%	97%		Increase
			Withdrawal rate		See table footnote (10) below.		
			Mortality rate(11)	0%	15%		Decrease
			Equity volatility curve	18%	22%		Increase

(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, assets supporting experience-rated contractholder liabilities and fixed maturities trading.

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

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

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

(6) Policyholders' account balances primarily represent general account liabilities for the index-linked interest credited on certain of the Company's life and annuity products that 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.

(7) Lapse rates for contracts with living benefit guarantees 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 for contracts with index-linked crediting guarantees may be adjusted at the contract level based on the applicability of any surrender charges, product type, and market related factors such as interest rates. Lapse rates are also generally assumed to be lower for the period where surrender charges apply. For any given contract, lapse rates vary throughout the period over which cash flows are projected for the purposes of valuing these embedded derivatives.

(8) 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 the Company's estimates of rates that a market participant would use to value the living benefits in both the accumulation and payout phases and index-linked interest crediting guarantees. 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 funding agreements, living benefit guarantees, and index-linked interest crediting guarantees are insurance liabilities and are therefore senior to debt.

(9) 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.

(10) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of September 30, 2019 and December 31, 2018, 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%.

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

(11) The range reflects the mortality rates for the vast majority of business with living benefits and other contracts, with policyholders ranging from 45 to 90 years old. While the majority of living benefits have a minimum age requirement, certain other contracts do not have an age restriction. This results in contractholders with mortality rates approaching 0% for certain benefits. Mortality rates may vary by product, age, and duration. 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 6 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

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. All transfers are based on changes in the observability of the valuation inputs, including the availability of pricing service information that the Company can validate. All transfers are generally reported at the value as of the beginning of the quarter in which transfers occur for any such assets still held at the end of the quarter.

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

	Three Months Ended September 30, 2019											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)	
	(in millions)											
Fixed maturities, available-for-sale:												
U.S. government	\$ 94	\$ 0	\$ 5	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 99	\$ 0	
U.S. states	4	0	0	0	0	0	0	0	0	4	0	
Foreign government	24	(2)	0	0	0	0	0	0	0	22	(2)	
Corporate securities(3)	2,792	(26)	509	(7)	0	(203)	(1)	136	(21)	3,179	(25)	
Structured securities(4)	861	4	439	(1)	0	(74)	(14)	5	(45)	1,175	0	
Assets supporting experience-rated contractholder liabilities:												
Foreign government	26	0	0	0	0	0	0	0	0	26	0	
Corporate securities(3)	553	(5)	103	0	0	(27)	0	36	0	660	(8)	
Structured securities(4)	57	0	22	0	0	(4)	0	0	0	75	0	
Equity securities	1	0	0	0	0	0	0	0	0	1	0	
All other activity	1	0	3	0	0	(1)	0	0	0	3	0	
Other assets:												
Fixed maturities, trading	296	(3)	16	(6)	0	0	(1)	2	0	304	(3)	
Equity securities	624	15	27	(20)	0	(1)	(2)	0	0	643	7	
Other invested assets	436	0	28	0	0	0	0	0	0	464	0	
Short-term investments	288	0	127	0	0	(121)	0	0	0	294	0	
Cash equivalents	1	0	0	0	0	0	0	0	0	1	0	
Other assets	98	71	10	0	0	0	0	0	0	179	73	
Separate account assets(5)	1,708	9	54	(88)	0	(62)	0	43	(4)	1,660	8	
Liabilities:												
Future policy benefits	(12,723)	(3,417)	0	0	(314)	0	2	0	0	(16,452)	(3,570)	
Policyholders' account balances(6)	(1,047)	(79)	0	0	(62)	0	0	0	0	(1,188)	(66)	
Other liabilities	0	0	0	0	0	0	0	0	0	0	0	
Notes issued by consolidated VIEs	(816)	9	0	0	0	0	0	0	0	(807)	9	

Three Months Ended September 30, 2019									
Total realized and unrealized gains (losses)						Unrealized gains (losses) for assets still held(2)			
Realized investment gains (losses), net	Other income	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income		Realized investment gains (losses), net	Other income	Interest credited to policyholders' account balances	
(in millions)									
Fixed maturities, available-for-sale	\$ (25)	\$ 0	\$ 0	\$ (3)	\$ 4	\$ (27)	\$ 0	\$ 0	\$ 0
Assets supporting experience-rated contractholder liabilities	0	(8)	0	0	3	0	(8)	0	0
Other assets:									
Fixed maturities, trading	0	(3)	0	0	0	0	(3)	0	0
Equity securities	3	12	0	0	0	0	7	0	0
Other invested assets	0	0	0	0	0	0	0	0	0
Short-term investments	0	0	0	0	0	0	0	0	0
Cash equivalents	0	0	0	0	0	0	0	0	0
Other assets	71	0	0	0	0	73	0	0	0
Separate account assets(5)	0	0	8	0	1	0	0	0	8
Liabilities:									
Future policy benefits	(3,417)	0	0	0	0	(3,570)	0	0	0
Policyholders' account balances	(79)	0	0	0	0	(66)	0	0	0
Other liabilities	0	0	0	0	0	0	0	0	0
Notes issued by consolidated VIEs	9	0	0	0	0	9	0	0	0

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

Nine Months Ended September 30, 2019											
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)
(in millions)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 81	\$ 0	\$ 18	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 99	\$ 0
U.S. states	5	0	0	0	0	(1)	0	0	0	4	0
Foreign government	125	0	0	0	0	0	(1)	9	(111)	22	(2)
Corporate securities(3)	2,685	(16)	1,116	(36)	0	(807)	(2)	319	(80)	3,179	(51)
Structured securities(4)	1,339	29	870	(48)	0	(406)	(7)	755	(1,357)	1,175	0
Assets supporting experience-rated contractholder liabilities:											
Foreign government	225	0	0	0	0	(3)	(196)	0	0	26	0
Corporate securities(3)	444	5	144	0	0	(170)	196	46	(5)	660	(2)
Structured securities(4)	149	1	28	0	0	(29)	0	0	(74)	75	1
Equity securities	1	1	0	(1)	0	0	0	0	0	1	1
All other activity	0	0	6	0	0	(3)	0	0	0	3	0
Other assets:											
Fixed maturities, trading	206	(14)	90	(20)	0	0	2	41	(1)	304	(15)
Equity securities	671	39	73	(44)	0	(75)	2	1	(24)	643	30
Other invested assets	263	(1)	246	0	0	(42)	(2)	0	0	464	(1)
Short-term investments	89	0	553	0	0	(348)	0	0	0	294	0
Cash equivalents	77	0	1	0	0	(77)	0	0	0	1	0
Other assets	25	127	27	0	0	0	0	0	0	179	127
Separate account assets(5)	1,534	134	282	(105)	0	(112)	0	43	(116)	1,660	122
Liabilities:											
Future policy benefits	(8,926)	(6,627)	0	0	(902)	0	3	0	0	(16,452)	(6,870)
Policyholders' account balances(6)	(56)	(958)	0	0	(171)	0	(3)	0	0	(1,188)	(938)
Other liabilities	0	0	0	0	0	0	0	0	0	0	0
Notes issued by consolidated VIEs	(595)	8	0	0	(858)	638	0	0	0	(807)	8

	Nine Months Ended September 30, 2019									
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(2)				
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances		
	(in millions)									
Fixed maturities, available-for-sale	\$ (38)	\$ 0	\$ 0	\$ 37	\$ 14	\$ (53)	\$ 0	\$ 0		0
Assets supporting experience-rated contractholder liabilities	0	1	0	0	6	0	0			0
Other assets:										
Fixed maturities, trading	0	(15)	0	0	1	0	(15)			0
Equity securities	3	36	0	0	0	0	30			0
Other invested assets	(1)	0	0	0	0	(1)	0			0
Short-term investments	0	0	0	0	0	0	0			0
Cash equivalents	0	0	0	0	0	0	0			0
Other assets	127	0	0	0	0	127	0			0
Separate account assets(5)	0	0	131	0	3	0	0			122
Liabilities:										
Future policy benefits	(6,627)	0	0	0	0	(6,870)	0			0
Policyholders' account balances	(958)	0	0	0	0	(938)	0			0
Other liabilities	0	0	0	0	0	0	0			0
Notes issued by consolidated VIEs	8	0	0	0	0	8	0			0

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

Three Months Ended September 30, 2018											
Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)	
(in millions)											
Fixed maturities, available-for-sale:											
U.S. government	\$ 67	\$ 0	\$ 2	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 69	\$ 0	
U.S. states	5	0	0	0	0	0	0	0	5	0	
Foreign government	137	0	0	0	0	0	(3)	0	128	0	
Corporate securities(3)	2,691	(17)	118	(13)	0	(323)	(6)	60	2,323	(17)	
Structured securities(4)	1,664	(10)	520	(226)	0	(221)	(4)	0	1,408	0	
Assets supporting experience-rated contractholder liabilities:											
Foreign government	221	0	0	0	0	0	0	0	221	(1)	
Corporate securities(3)	488	(12)	26	0	0	(75)	0	3	408	(13)	
Structured securities(4)	107	0	3	0	0	(21)	0	(15)	74	(1)	
Equity securities	4	0	0	(2)	0	0	0	0	2	0	
All other activity	5	0	31	0	0	(33)	0	0	3	0	
Other assets:											
Fixed maturities, trading	173	4	18	(9)	0	0	1	0	186	4	
Equity securities	783	3	19	(46)	0	(40)	(8)	2	711	(1)	
Other invested assets	122	1	0	(3)	0	0	(3)	0	117	0	
Short-term investments	1	0	22	0	0	(17)	0	0	6	0	
Cash equivalents	2	0	0	0	0	(2)	0	0	0	0	
Other assets	0	0	0	0	0	0	0	0	0	0	
Separate account assets(5)	1,816	26	67	(6)	0	(66)	0	12	1,637	24	
Liabilities:											
Future policy benefits	(6,585)	1,645	0	0	(291)	0	0	0	(5,231)	1,585	
Policyholders' account balances(6)	(42)	(23)	0	0	(30)	0	0	0	(95)	(23)	
Other liabilities	(18)	(32)	9	0	0	0	0	0	(41)	(33)	
Notes issued by consolidated VIEs	(609)	(1)	0	0	0	0	0	0	(610)	(2)	

Three Months Ended September 30, 2018									
Total realized and unrealized gains (losses)						Unrealized gains (losses) for assets still held(2)			
Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income		Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	
(in millions)									
Fixed maturities, available-for-sale	\$ (6)	\$ 0	\$ 0	\$ (26)	\$ 5	\$ (17)	\$ 0	\$ 0	0
Assets supporting experience-rated contractholder liabilities	0	(15)	0	0	3	0	(15)		0
Other assets:									
Fixed maturities, trading	0	3	0	0	1	0	4		0
Equity securities	0	3	0	0	0	0	(1)		0
Other invested assets	0	1	0	0	0	0	0		0
Short-term investments	0	0	0	0	0	0	0		0
Cash equivalents	0	0	0	0	0	0	0		0
Other assets	0	0	0	0	0	0	0		0
Separate account assets(5)	0	0	25	0	1	0	0		24
Liabilities:									
Future policy benefits	1,645	0	0	0	0	1,585	0		0
Policyholders' account balances	(23)	0	0	0	0	(23)	0		0
Other liabilities	(32)	0	0	0	0	(33)	0		0
Notes issued by consolidated VIEs	(1)	0	0	0	0	(2)	0		0

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

Nine Months Ended September 30, 2018												
	Fair Value, beginning of period	Total realized and unrealized gains (losses)	Purchases	Sales	Issuances	Settlements	Other(1)	Transfers into Level 3	Transfers out of Level 3	Fair Value, end of period	Unrealized gains (losses) for assets still held(2)	
(in millions)												
Fixed maturities, available-for-sale:												
U.S. government	\$ 52	\$ 0	\$ 17	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 69	\$ 0	
U.S. states	5	0	0	0	0	0	0	0	0	5	0	
Foreign government	148	(2)	0	0	0	0	(6)	20	(32)	128	0	
Corporate securities(3)	2,776	(35)	493	(17)	0	(778)	(25)	189	(280)	2,323	(47)	
Structured securities(4)	6,715	(34)	2,509	(570)	0	(1,538)	2	1,133	(6,809)	1,408	0	
Assets supporting experience-rated contractholder liabilities:												
Foreign government	223	1	0	0	0	(3)	0	0	0	221	(3)	
Corporate securities(3)	462	(21)	91	0	0	(144)	0	43	(23)	408	(23)	
Structured securities(4)	722	(2)	22	0	0	(163)	0	33	(538)	74	(2)	
Equity securities	4	1	0	(3)	0	0	0	0	0	2	1	
All other activity	7	0	74	0	0	(78)	0	0	0	3	0	
Other assets:												
Fixed maturities, trading	156	7	67	(51)	0	(3)	4	12	(6)	186	7	
Equity securities	795	5	61	(78)	0	(79)	7	5	(5)	711	(1)	
Other invested assets	137	5	1	(15)	0	0	(11)	0	0	117	3	
Short-term investments	8	(1)	44	0	0	(43)	(2)	0	0	6	(1)	
Cash equivalents	0	0	9	0	0	(9)	0	0	0	0	0	
Other assets	13	(13)	0	0	0	0	0	0	0	0	(13)	
Separate account assets(5)	2,122	15	557	(28)	0	(327)	0	236	(938)	1,637	20	
Liabilities:												
Future policy benefits	(8,720)	4,354	0	0	(865)	0	0	0	0	(5,231)	4,088	
Policyholders' account balances(6)	(47)	(26)	0	0	(22)	0	0	0	0	(95)	(26)	
Other liabilities	(3)	(66)	27	0	0	0	1	0	0	(41)	(65)	
Notes issued by consolidated VIEs	(1,196)	(1)	0	0	0	0	587	0	0	(610)	(1)	

Nine Months Ended September 30, 2018									
	Total realized and unrealized gains (losses)					Unrealized gains (losses) for assets still held(2)			
	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	Included in other comprehensive income (losses)	Net investment income	Realized investment gains (losses), net	Other income (loss)	Interest credited to policyholders' account balances	
(in millions)									
Fixed maturities, available-for-sale	\$ (19)	\$ 0	\$ 0	\$ (65)	\$ 13	\$ (47)	\$ 0	\$ 0	0
Assets supporting experience-rated contractholder liabilities	0	(28)	0	0	7	0	(27)		0
Other assets:									
Fixed maturities, trading	1	5	0	0	1	0	7		0
Equity securities	0	5	0	0	0	0	(1)		0
Other invested assets	4	1	0	0	0	2	1		0
Short-term investments	(1)	0	0	0	0	(1)	0		0
Cash equivalents	0	0	0	0	0	0	0		0
Other assets	(13)	0	0	0	0	(13)	0		0
Separate account assets(5)	0	0	14	0	1	0	0		20
Liabilities:									
Future policy benefits	4,354	0	0	0	0	4,088	0		0
Policyholders' account balances	(26)	0	0	0	0	(26)	0		0
Other liabilities	(66)	0	0	0	0	(65)	0		0
Notes issued by consolidated VIEs	(1)	0	0	0	0	(1)	0		0

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

- (1) “Other,” for the periods ended September 30, 2019 and September 30, 2018, primarily represent deconsolidation of VIE, reclassifications of certain assets between reporting categories and foreign currency translation.
- (2) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
- (3) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities.
- (4) Includes asset-backed, commercial mortgage-backed and residential mortgage-backed securities.
- (5) 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.
- (6) Issuances and settlements for Policyholders’ account balances are presented net in the rollforward. Prior year amounts are restated to conform to current year presentation.

Derivative Fair Value Information

The following tables present the balances of derivative assets and liabilities measured at fair value on a recurring basis, as of the date indicated, by primary underlying risk. These tables include NPR and exclude embedded derivatives and associated reinsurance recoverables. The derivative assets and liabilities shown below are included in “Other invested assets” or “Other liabilities” in the tables contained within the sections “—Assets and Liabilities by Hierarchy Level” and “—Changes in Level 3 Assets and Liabilities,” above.

	As of September 30, 2019				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative Assets:					
Interest Rate	\$ 6	\$ 15,305	\$ 1	\$	\$ 15,312
Currency	0	416	0		416
Credit	0	18	0		18
Currency/Interest Rate	0	3,235	0		3,235
Equity	1	535	0		536
Other	0	0	0		0
Netting(1)				(18,128)	(18,128)
Total derivative assets	\$ 7	\$ 19,509	\$ 1	\$ (18,128)	\$ 1,389
Derivative Liabilities:					
Interest Rate	\$ 3	\$ 6,806	\$ 0	\$	\$ 6,809
Currency	0	138	0		138
Credit	0	15	0		15
Currency/Interest Rate	0	532	0		532
Equity	5	778	0		783
Other	0	0	0		0
Netting(1)				(8,143)	(8,143)
Total derivative liabilities	\$ 8	\$ 8,269	\$ 0	\$ (8,143)	\$ 134

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

As of December 31, 2018					
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
Derivative Assets:					
Interest Rate	\$ 23	\$ 6,341	\$ 2	\$	\$ 6,366
Currency	0	273	0		273
Credit	0	33	0		33
Currency/Interest Rate	0	2,292	0		2,292
Equity	0	1,515	0		1,515
Other	0	0	0		0
Netting(1)				(9,331)	(9,331)
Total derivative assets	\$ 23	\$ 10,454	\$ 2	\$ (9,331)	\$ 1,148
Derivative Liabilities:					
Interest Rate	\$ 2	\$ 3,818	\$ 0	\$	\$ 3,820
Currency	0	140	0		140
Credit	0	23	0		23
Currency/Interest Rate	0	778	0		778
Equity	7	640	0		647
Other	0	0	0		0
Netting(1)				(5,281)	(5,281)
Total derivative liabilities	\$ 9	\$ 5,399	\$ 0	\$ (5,281)	\$ 127

(1) “Netting” amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting agreement.

Changes in Level 3 derivative assets and liabilities—The following tables provide a summary of the changes in fair value of Level 3 derivative 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.

Three Months Ended September 30, 2019													
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other	Transfers into Level 3(2)	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(1)		
	(in millions)												
Net Derivative - Equity	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Derivative - Interest Rate	1	0	0	0	0	0	0	0	0	1			0

Nine Months Ended September 30, 2019													
	Fair Value, beginning of period	Total realized and unrealized gains (losses) (1)	Purchases	Sales	Issuances	Settlements	Other(3)	Transfers into Level 3(2)	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(1)		
	(in millions)												
Net Derivative - Equity	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Derivative - Interest Rate	2	(1)	0	0	0	0	0	0	0	1			(1)

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

Three Months Ended September 30, 2018												
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other	Transfers into Level 3(2)	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(1)	
(in millions)												
Net Derivative - Equity	\$ 2	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (2)	\$ 0	\$ 0	\$ 0	\$ 0	0
Net Derivative - Interest Rate	2	0	0	0	0	0	0	0	0	2		4

Nine Months Ended September 30, 2018												
	Fair Value, beginning of period	Total realized and unrealized gains (losses)(1)	Purchases	Sales	Issuances	Settlements	Other(3)	Transfers into Level 3(2)	Transfers out of Level 3(2)	Fair Value, end of period	Unrealized gains (losses) for assets still held(1)	
(in millions)												
Net Derivative - Equity	\$ 10	\$ 1	\$ 0	\$ 0	\$ 0	\$ 0	\$ (11)	\$ 0	\$ 0	\$ 0	\$ 0	0
Net Derivative - Interest Rate	(3)	5	0	0	0	0	0	0	0	2		5

- (1) Total realized and unrealized gains (losses) as well as unrealized gains (losses) for assets still held at the end of the period are recorded in “Realized investment gains (losses), net.”
(2) Transfers into or out of Level 3 are generally reported at the value as of the beginning of the quarter in which the transfers occur for any such positions still held at the end of the quarter.
(3) Represents conversion of warrants to equity shares.

Nonrecurring Fair Value Measurements—The following tables represent information for assets measured at fair value on a nonrecurring basis. The fair value measurement is nonrecurring as these assets are measured at fair value only when there is a triggering event (e.g., an evidence of impairment). Assets included in the table are those that were impaired during the respective reporting periods and that are still held as of the reporting date. The estimated fair values for these amounts were determined using significant unobservable inputs (Level 3).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in millions)				
Realized investment gains (losses) net:				
Commercial mortgage loans(1)	\$ 1	\$ 3	\$ 1	\$ (10)
Mortgage servicing rights(2)	\$ (3)	\$ 2	\$ (5)	\$ 6

	September 30, 2019		December 31, 2018	
	(in millions)			
Carrying value after measurement as of period end:				
Commercial mortgage loans(1)	\$ 14	\$ 47		
Mortgage servicing rights(2)	\$ 61	\$ 73		

- (1) Commercial mortgage loans are valued based on discounted cash flows utilizing market rates or the fair value of the underlying real estate collateral.
(2) Mortgage servicing rights are valued using a discounted cash flow model. The model incorporates assumptions for servicing revenues, which are adjusted for expected prepayments, delinquency rates, escrow deposit income and estimated loan servicing expenses. The discount rates incorporated into the model are determined based on the estimated returns a market participant would require for this business including a liquidity and risk premium. This estimate includes available relevant data from any active market sales of mortgage servicing rights.

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

Fair Value Option

The fair value option allows the Company to elect fair value as an alternative measurement for selected financial assets and financial liabilities not otherwise reported at fair value. Such elections have been made by the Company to help mitigate volatility in earnings that result from different measurement attributes. Electing the fair value option also allows the Company to achieve consistent accounting for certain assets and liabilities. Changes in fair value are reflected in “Realized investment gains (losses), net” for commercial mortgage and other loans and “Other income (loss)” for other assets and notes issued by consolidated VIEs. Changes in fair value due to instrument-specific credit risk are estimated using changes in credit spreads and quality ratings for the period reported. Interest income on commercial mortgage and other loans is included in “Net investment income.” Interest income on these loans is recorded based on the effective interest rate as determined at the closing of the loan.

The following tables present information regarding assets and liabilities where the fair value option has been elected.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Liabilities:				
Notes issued by consolidated VIEs:				
Changes in fair value	\$ (9)	\$ 1	\$ (8)	\$ 1

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Commercial mortgage and other loans:				
Interest income	\$ 5	\$ 4	\$ 16	\$ 10
Notes issued by consolidated VIEs:				
Interest expense	\$ 11	\$ 9	\$ 33	\$ 27

	September 30, 2019	December 31, 2018
	(in millions)	
Commercial mortgage and other loans(1):		
Fair value as of period end	\$ 551	\$ 763
Aggregate contractual principal as of period end	\$ 545	\$ 754
Other assets:		
Fair value as of period end	\$ 10	\$ 10
Notes issued by consolidated VIEs:		
Fair value as of period end	\$ 807	\$ 595
Aggregate contractual principal as of period end	\$ 857	\$ 632

(1) As of September 30, 2019, for loans for which the fair value option has been elected, there were no loans in non-accrual status and none of the loans were more than 90 days past due and still accruing.

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.

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

	September 30, 2019				
	Fair Value				Carrying Amount(1)
	Level 1	Level 2	Level 3	Total	Total
	(in millions)				
Assets:					
Fixed maturities, held-to-maturity(2)	\$ 0	\$ 2,272	\$ 87	\$ 2,359	\$ 1,958
Assets supporting experience-rated contractholders liabilities	0	0	0	0	0
Commercial mortgage and other loans	0	108	63,846	63,954	61,282
Policy loans	0	0	12,022	12,022	12,022
Other invested assets	0	36	0	36	36
Short-term investments	1,312	325	0	1,637	1,637
Cash and cash equivalents	7,313	1,449	0	8,762	8,762
Accrued investment income	0	3,248	0	3,248	3,248
Other assets	144	2,457	600	3,201	3,199
Total assets	\$ 8,769	\$ 9,895	\$ 76,555	\$ 95,219	\$ 92,144
Liabilities:					
Policyholders' account balances—investment contracts	\$ 0	\$ 32,811	\$ 70,326	\$ 103,137	\$ 101,689
Securities sold under agreements to repurchase	0	9,241	0	9,241	9,241
Cash collateral for loaned securities	0	4,728	0	4,728	4,728
Short-term debt	0	1,243	260	1,503	1,490
Long-term debt(3)	1,945	18,597	1,166	21,708	19,151
Notes issued by consolidated VIEs	0	0	426	426	426
Other liabilities	0	6,900	598	7,498	7,498
Separate account liabilities—investment contracts	0	73,415	23,684	97,099	97,099
Total liabilities	\$ 1,945	\$ 146,935	\$ 96,460	\$ 245,340	\$ 241,322

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

	December 31, 2018				
	Fair Value				Carrying Amount(1)
	Level 1	Level 2	Level 3 (in millions)	Total	Total
Assets:					
Fixed maturities, held-to-maturity(2)	\$ 0	\$ 1,468	\$ 904	\$ 2,372	\$ 2,013
Assets supporting experience-rated contractholders liabilities	0	0	0	0	0
Commercial mortgage and other loans	0	109	59,106	59,215	59,067
Policy loans	0	0	12,016	12,016	12,016
Other invested assets	0	40	0	40	40
Short-term investments	951	25	0	976	976
Cash and cash equivalents	4,871	1,004	0	5,875	5,875
Accrued investment income	0	3,318	0	3,318	3,318
Other assets	141	2,189	483	2,813	2,813
Total assets	\$ 5,963	\$ 8,153	\$ 72,509	\$ 86,625	\$ 86,118
Liabilities:					
Policyholders' account balances—investment contracts	\$ 0	\$ 31,422	\$ 67,006	\$ 98,428	\$ 99,829
Securities sold under agreements to repurchase	0	9,950	0	9,950	9,950
Cash collateral for loaned securities	0	3,929	0	3,929	3,929
Short-term debt	0	1,854	658	2,512	2,451
Long-term debt(3)	1,734	15,057	1,181	17,972	17,378
Notes issued by consolidated VIEs	0	0	360	360	360
Other liabilities	0	6,338	510	6,848	6,848
Separate account liabilities—investment contracts	0	66,914	26,022	92,936	92,936
Total liabilities	\$ 1,734	\$ 135,464	\$ 95,737	\$ 232,935	\$ 233,681

- (1) 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.
- (2) Excludes notes with fair value of \$5,362 million (carrying amount of \$4,914 million) and \$4,879 million (carrying amount of \$4,879 million) as of September 30, 2019 and December 31, 2018, respectively, which have been offset with the associated payables under a netting agreement.
- (3) Includes notes with fair value of \$9,718 million (carrying amount of \$9,270 million) and \$9,095 million (carrying amount of \$9,095 million) as of September 30, 2019 and December 31, 2018, respectively, which have been offset with the associated receivables under a netting agreement.

7. LEASES

The Company occupies leased office space and other facilities in many locations under various long-term leases and has entered into numerous leases covering the long-term use of computers and other equipment. The leases, depending on their specific terms, are classified as either operating or finance with the vast majority of leases falling under the operating classification. The leases in the Company's portfolio have remaining lease terms from less than one year to 29 years, some of which include options to extend the leases for up to 18 years, and some of which include options to terminate the leases within 8 years. An analysis of all economic and non-economic factors associated with leases containing certain options, including factors such as the existence of cancellation penalties, leasehold improvements made to the underlying assets and location of the underlying assets, is conducted to determine whether those leases are reasonably certain to renew, and, hence, should be included in the lease term that is used to establish the right-of-use assets and lease liabilities for those arrangements.

The Company does not have residual guarantees associated with its lessee arrangements, nor are there any restrictions or covenants associated with its lease arrangements.

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

Lessee

Supplemental balance sheet information related to leases where the Company is the lessee is included below. Right-of-use assets and lease liabilities are included within “Other assets” and “Other liabilities” respectively.

	September 30, 2019
	(in millions)
Operating Leases:	
Right-of-use assets	\$ 524
Lease liabilities	\$ 564
Weighted average remaining lease term	6 years
Weighted average discount rate	2.50%

Maturities of operating lease liabilities are as follows:

	September 30, 2019
	(in millions)
2019 (October - December)	\$ 40
2020	146
2021	129
2022	92
2023	67
Thereafter	143
Total lease payments	617
Less imputed interest	(53)
Total	\$ 564

Lease expense is included in “General and administrative expenses.” The expense was comprised of operating lease costs and short-term lease costs of \$35 million and \$25 million, respectively, for the three months ended September 30, 2019, and \$104 million and \$75 million, respectively, for the nine months ended September 30, 2019. Short-term lease costs relate to those leases with terms of twelve months or less that do not include an option to purchase the underlying asset that is reasonably certain of exercise.

Lessor

The Company directly owns real estate properties within its investment portfolio. Such real estate is leased to third-parties, with the Company serving as the lessor. The terms of the leases vary depending on property type (e.g., commercial or residential). In most cases, the lessee has an option to renew the lease contract based on market rates but does not have an option to purchase the property. The terms of the leases may also include provisions for the use of common areas. Such non-lease components are not separately accounted for by the Company, as a result of applying the practical expedient discussed in Note 2. Lease income included in “Net investment income” was \$39 million and \$139 million for the three and nine months ended September 30, 2019, respectively.

8. CLOSED BLOCK

On December 18, 2001, the date of demutualization, The Prudential Insurance Company of America (“PICA”) established a Closed Block for certain in-force participating insurance policies and annuity products, along with corresponding assets used for the payment of benefits and policyholders’ dividends on these products, (collectively the “Closed Block”), and ceased offering these participating products. The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. The Closed Block forms the principal component of the Closed Block division. For more information on the Closed Block, see Note 14 to the Company’s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2018.

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

As of September 30, 2019 and December 31, 2018, the Company recognized a policyholder dividend obligation of \$2,586 million and \$2,252 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of \$3,977 million and \$899 million at September 30, 2019 and December 31, 2018, respectively, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

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

	September 30, 2019	December 31, 2018
	(in millions)	
Closed Block liabilities		
Future policy benefits	\$ 47,726	\$ 48,282
Policyholders' dividends payable	840	812
Policyholders' dividend obligation	6,563	3,150
Policyholders' account balances	4,988	5,061
Other Closed Block liabilities	4,391	3,955
Total Closed Block liabilities	<u>64,508</u>	<u>61,260</u>
Closed Block assets		
Fixed maturities, available-for-sale, at fair value	42,078	38,538
Fixed maturities, trading, at fair value	243	195
Equity securities, at fair value	2,064	1,784
Commercial mortgage and other loans	8,484	8,782
Policy loans	4,302	4,410
Other invested assets	3,367	3,316
Short-term investments	323	477
Total investments	<u>60,861</u>	<u>57,502</u>
Cash and cash equivalents	359	467
Accrued investment income	478	466
Other Closed Block assets	133	105
Total Closed Block assets	<u>61,831</u>	<u>58,540</u>
Excess of reported Closed Block liabilities over Closed Block assets	2,677	2,720
Portion of above representing accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses)	3,926	857
Allocated to policyholder dividend obligation	(3,977)	(899)
Future earnings to be recognized from Closed Block assets and Closed Block liabilities	<u>\$ 2,626</u>	<u>\$ 2,678</u>

Information regarding the policyholder dividend obligation is as follows:

	Nine Months Ended September 30, 2019
	(in millions)
Balance, December 31, 2018	\$ 3,150
Impact from earnings allocable to policyholder dividend obligation	334
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	3,079
Balance, September 30, 2019	<u>\$ 6,563</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Revenues				
Premiums	\$ 510	\$ 528	\$ 1,618	\$ 1,680
Net investment income	591	562	1,732	1,752
Realized investment gains (losses), net	351	(4)	456	104
Other income (loss)	31	166	356	273
Total Closed Block revenues	1,483	1,252	4,162	3,809
Benefits and Expenses				
Policyholders' benefits	659	676	2,148	2,182
Interest credited to policyholders' account balances	33	33	97	99
Dividends to policyholders	649	424	1,617	1,240
General and administrative expenses	88	91	266	275
Total Closed Block benefits and expenses	1,429	1,224	4,128	3,796
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes	54	28	34	13
Income tax expense (benefit)	39	12	(14)	(33)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes	\$ 15	\$ 16	\$ 48	\$ 46

9. INCOME TAXES

The Company uses a full year projected effective tax rate approach to calculate year-to-date taxes. In addition, certain items impacting total income tax expense are recorded in the periods in which they occur. The projected effective tax rate is the ratio of projected "Total income tax expense" divided by projected "Income before income taxes and equity in earnings of operating joint ventures." Taxes attributable to operating joint ventures are recorded within "Equity in earnings of operating joint ventures, net of taxes." The interim period tax expense (or benefit) is the difference between the year-to-date income tax provision and the amounts reported for the previous interim periods of the fiscal year.

The Company's income tax provision, on a consolidated basis, amounted to an income tax expense of \$726 million, or 19.4% of income (loss) before income taxes and equity in earnings of operating joint ventures, in the first nine months of 2019, compared to \$604 million, or 16.0%, in the first nine months of 2018. The Company's current and prior effective tax rates differ from the U.S. statutory rate of 21% primarily due to non-taxable investment income, tax credits and foreign earnings taxed at higher rates than the U.S. statutory rate. In addition, the first nine months of 2018 also includes a \$144 million reduction in income tax expense primarily related to refinements of the Company's provisional estimates related to the U.S. Tax Cuts and Jobs Act of 2017 and unique items described below that were recorded in the periods in which they occurred.

2018 Industry Issue Resolution (IIR) - In August 2018, the Internal Revenue Service ("IRS") released an IIR to provide guidance on the tax reserving for guaranteed benefits within variable annuity contracts and principle-based reserves on certain life insurance contracts. Adopting the IIR methodology resulted in an accelerated deduction for the Company's 2017 tax return, that would have otherwise been deductible in future years. Prior to the adoption of this IIR, the Company accounted for these future deductions as deferred tax assets measured using the current 21% corporate income tax rate. Upon adoption of the IIR, the tax benefits were revalued using the 35% tax rate applicable for the 2017 tax year which resulted in a reduction in income tax expense of \$198 million for the first nine months of 2018.

Resolution of tax audit issues - During the third quarter of 2018, the Company reached an agreement with the IRS to resolve outstanding tax audit issues for tax years 2015 and 2016 and partially for 2017 which resulted in a \$40 million increase to our income tax expense for the first nine months of 2018.

Brazil Full Inclusion - During the third quarter of 2018, the Company made a tax election, effective for the 2017 tax year, to subject earnings from its insurance operations in Brazil to tax in the U.S. in the tax year earned, net of related tax credits. This election had the effect of reducing the rate at which the Company incurs taxes on these earnings from the 45% tax rate in Brazil to the 21% tax rate in the U.S., which in turn reduced the amount of associated income tax expense in 2018. In conjunction with

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

this election, the Company remeasured its related deferred tax assets from the previous 45% rate in Brazil to the new rate of 21% in the U.S., which resulted in additional income tax expense in the third quarter of 2018. The net effect of the lower tax rate and the remeasurement of the deferred tax assets was a net increase in income tax expense of \$51 million for the first nine months of 2018.

10. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

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

	September 30, 2019	December 31, 2018
	(\$ in millions)	
Commercial paper:		
Prudential Financial	\$ 25	\$ 15
Prudential Funding, LLC	553	727
Subtotal commercial paper	578	742
Mortgage Debt(1)	0	53
Current portion of long-term debt(2)	904	1,656
Other(3)	8	0
Total short-term debt(4)	\$ 1,490	\$ 2,451
<u>Supplemental short-term debt information:</u>		
Portion of commercial paper borrowings due overnight	\$ 250	\$ 301
Daily average commercial paper outstanding for the quarter ended	\$ 1,853	\$ 1,554
Weighted average maturity of outstanding commercial paper, in days	5	12
Weighted average interest rate on outstanding commercial paper(5)	1.90%	2.41%

(1) Includes \$53 million of mortgage debt denominated in foreign currency at December 31, 2018.

(2) Includes \$652 million and \$1,100 million of senior notes at September 30, 2019 and December 31, 2018, respectively, and \$252 million and \$57 million of mortgage debt that has recourse only to real estate investment property at September 30, 2019 and December 31, 2018, respectively.

(3) Includes \$8 million drawn on a revolving line of credit held by a subsidiary at September 30, 2019.

(4) Includes Prudential Financial debt of \$677 million and \$1,115 million at September 30, 2019 and December 31, 2018, respectively.

(5) Prior period interest rate has been updated to conform to current period presentation.

Prudential Financial and certain subsidiaries have access to external sources of liquidity, including membership in the Federal Home Loan Banks, commercial paper programs and a contingent financing facility in the form of a put option agreement. The Company also maintains syndicated, unsecured committed credit facilities as an alternative source of liquidity. At September 30, 2019, no amounts were drawn on these credit facilities. For additional information on these sources of liquidity, see Note 16 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Surplus Notes. In August 2019, as a result of the note holders' exercise of the exchange option on \$500 million of surplus notes, the Company issued approximately 6.2 million shares of Common Stock at an exchange rate equal to 12.3877 shares of Common Stock per each \$1,000 principal amount of surplus notes. The Company's obligations under the surplus notes are now satisfied. For additional information, see Note 13.

Credit Facilities. On September 30, 2019, Prudential Holdings of Japan, Inc. ("PHJ") entered into a ¥100 billion five-year credit facility with a syndicate of lenders, with terms similar to its prior three-year syndicated credit facility expiring on that date. There were no borrowings under the facility as of September 30, 2019.

Long-term Debt

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

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

	September 30, 2019	December 31, 2018
	(in millions)	
Fixed-rate obligations:		
Surplus notes	\$ 342	\$ 341
Surplus notes subject to set-off arrangements(1)	7,070	6,895
Senior notes	10,582	8,774
Mortgage debt(2)	101	237
Floating-rate obligations:		
Line of credit	299	0
Surplus notes subject to set-off arrangements(1)	2,200	2,200
Senior notes	29	29
Mortgage debt(3)	224	429
Junior subordinated notes(4)	7,574	7,568
Subtotal	28,421	26,473
Less: assets under set-off arrangements(1)	9,270	9,095
Total long-term debt(5)	\$ 19,151	\$ 17,378

(1) The surplus notes have corresponding assets where rights to set-off exist, thereby reducing the amount of surplus notes included in long-term debt.

(2) Includes \$41 million and \$101 million of debt denominated in foreign currency at September 30, 2019 and December 31, 2018, respectively.

(3) Includes \$49 million and \$206 million of debt denominated in foreign currency at September 30, 2019 and December 31, 2018, respectively.

(4) Includes Prudential Financial debt of \$7,516 million and \$7,511 million at September 30, 2019 and December 31, 2018, respectively. Also includes subsidiary debt of \$58 million and \$57 million denominated in foreign currency at September 30, 2019 and December 31, 2018, respectively.

(5) Includes Prudential Financial debt of \$17,954 million and \$16,141 million at September 30, 2019 and December 31, 2018, respectively.

At September 30, 2019 and December 31, 2018, the Company was in compliance with all debt covenants related to the borrowings in the table above.

Line of Credit. PGIM entered into a \$300 million syndicated credit facility in April 2019 that is secured by certain of PGIM's fund investments. The facility has a three-year term and extends for additional one-year periods unless terminated. The lenders on the facility have recourse only to the collateral pledged by PGIM. The facility was fully drawn as of September 30, 2019.

Senior Notes. As of September 30, 2019, the outstanding balance of the Company's senior notes was \$11.26 billion, an increase of \$1.4 billion from December 31, 2018. The increase was due to the issuance in the first quarter of \$1 billion of notes with an interest rate of 4.350% maturing in February 2050 and the issuance in the third quarter of \$1.5 billion of notes with an interest rate of 3.700% maturing in March 2051, offset by \$1.1 billion in debt maturities.

Mortgage Debt. As of September 30, 2019, the Company's subsidiaries had mortgage debt of \$577 million that has recourse only to real estate property held for investment by those subsidiaries. This represents a decrease of \$199 million from December 31, 2018, due to the transfer of \$228 million in debt into a non-consolidated real estate joint venture fund and a \$6 million decrease from foreign currency exchange rate fluctuations, offset by a \$35 million increase from new borrowings.

11. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

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

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

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

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

	Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
	(in millions)			
Components of net periodic (benefit) cost:				
Service cost	\$ 73	\$ 78	\$ 5	\$ 6
Interest cost	122	112	20	17
Expected return on plan assets	(204)	(204)	(24)	(27)
Amortization of prior service cost	(1)	(1)	1	0
Amortization of actuarial (gain) loss, net	54	53	6	4
Settlements	4	5	0	0
Special termination benefits	2	0	0	0
Net periodic (benefit) cost	\$ 50	\$ 43	\$ 8	\$ 0

	Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
	(in millions)			
Components of net periodic (benefit) cost:				
Service cost	\$ 218	\$ 236	\$ 16	\$ 18
Interest cost	368	336	59	52
Expected return on plan assets	(612)	(613)	(71)	(81)
Amortization of prior service cost	(3)	(3)	3	0
Amortization of actuarial (gain) loss, net	162	160	18	13
Settlements	52	5	0	0
Special termination benefits	3	1	0	0
Net periodic (benefit) cost	\$ 188	\$ 122	\$ 25	\$ 2

12. EQUITY

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

	Common Stock		
	Issued	Held In Treasury	Outstanding
	(in millions)		
Balance, December 31, 2018	660.1	249.4	410.7
Common Stock issued(1)	6.2	0.0	6.2
Common Stock acquired	0.0	21.8	(21.8)
Stock-based compensation programs(2)	0.0	(3.2)	3.2
Balance, September 30, 2019	<u>666.3</u>	<u>268.0</u>	<u>398.3</u>

(1) In August 2019, as a result of the note holders' exercise of the exchange option on \$500 million of surplus notes, the Company issued approximately 6.2 million shares of Common Stock at an exchange rate equal to 12.3877 shares of Common Stock per each \$1,000 principal amount of surplus notes. The Company's obligations under the surplus notes are now satisfied. For additional information, see Note 13.

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

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

In December 2018, Prudential Financial’s Board of Directors (the “Board”) authorized the Company to repurchase at management’s discretion up to \$2.0 billion of its outstanding Common Stock during the period from January 1, 2019 through December 31, 2019. In September 2019, the Board authorized a \$500 million increase to the authorization for calendar year 2019. As a result, the Company’s aggregate share repurchase authorization for calendar year 2019 is \$2.5 billion. As of September 30, 2019, 21.8 million shares of the Company’s Common Stock were repurchased under this authorization at a total cost of \$2.0 billion.

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

Dividends declared per share of Common Stock are as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Dividends declared per share of Common Stock	\$ 1.00	\$ 0.90	\$ 3.00	\$ 2.70

Accumulated Other Comprehensive Income (Loss)

AOCI represents the cumulative OCI items that are reported separate from net income and detailed on the Unaudited Interim Consolidated Statements of Comprehensive Income. The balance of and changes in each component of AOCI as of and for the nine months ended September 30, 2019 and 2018, are as follows:

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2018	\$ (564)	\$ 14,745	\$ (3,275)	\$ 10,906
Change in OCI before reclassifications	(74)	22,759	(76)	22,609
Amounts reclassified from AOCI	5	(1,188)	180	(1,003)
Income tax benefit (expense)	20	(4,956)	(25)	(4,961)
Cumulative effect of adoption of ASU 2017-12	0	7	0	7
Balance, September 30, 2019	<u>\$ (613)</u>	<u>\$ 31,367</u>	<u>\$ (3,196)</u>	<u>\$ 27,558</u>

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

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2017	\$ (269)	\$ 19,968	\$ (2,625)	\$ 17,074
Change in OCI before reclassifications	(314)	(10,452)	30	(10,736)
Amounts reclassified from AOCI	1	(690)	170	(519)
Income tax benefit (expense)	15	2,555	(45)	2,525
Cumulative effect of adoption of ASU 2016-01	0	(847)	0	(847)
Cumulative effect of adoption of ASU 2018-02	(231)	2,282	(398)	1,653
Balance, September 30, 2018	<u>\$ (798)</u>	<u>\$ 12,816</u>	<u>\$ (2,868)</u>	<u>\$ 9,150</u>

(1) Includes cash flow hedges of \$1,584 million and \$811 million as of September 30, 2019 and December 31, 2018, respectively, and \$139 million and \$(39) million as of September 30, 2018 and December 31, 2017, respectively.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line item in Consolidated Statements of Operations
	2019	2018	2019	2018	
(in millions)					
<u>Amounts reclassified from AOCI(1)(2):</u>					
Foreign currency translation adjustment:					
Foreign currency translation adjustments	\$ 0	\$ (1)	\$ (5)	\$ (1)	Realized investment gains (losses), net
Foreign currency translation adjustments	0	0	0	0	Other income (loss)
Total foreign currency translation adjustment	0	(1)	(5)	(1)	
Net unrealized investment gains (losses):					
Cash flow hedges—Interest rate	57	0	56	2	(3)
Cash flow hedges—Currency	3	2	5	2	(3)
Cash flow hedges—Currency/Interest rate	267	122	438	367	(3)
Net unrealized investment gains (losses) on available-for-sale securities	360	76	689	319	
Total net unrealized investment gains (losses)	687	200	1,188	690	(4)
Amortization of defined benefit pension items:					
Prior service cost	0	1	0	3	(5)
Actuarial gain (loss)	(60)	(57)	(180)	(173)	(5)
Total amortization of defined benefit pension items	(60)	(56)	(180)	(170)	
Total reclassifications for the period	\$ 627	\$ 143	\$ 1,003	\$ 519	

(1) All amounts are shown before tax.

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

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

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

(5) See Note 11 for information on employee benefit plans.

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

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on securities classified as available-for-sale and certain other 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 (loss)" 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 Gains (Losses) on Investments	DAC, DSI, VOBA and Reinsurance Recoverables	Future Policy Benefits, Policyholders' Account Balances and Reinsurance Payables	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2018	\$ 189	\$ (1)	\$ 4	\$ (23)	\$ (61)	\$ 108
Net investment gains (losses) on investments arising during the period	132				(30)	102
Reclassification adjustment for (gains) losses included in net income	(50)				11	(39)
Reclassification adjustment for OTTI losses excluded from net income(1)	(39)				9	(30)
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		(1)			0	(1)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances and reinsurance payables			1		0	1
Impact of net unrealized investment (gains) losses on policyholders' dividends				(3)	1	(2)
Balance, September 30, 2019	<u>\$ 232</u>	<u>\$ (2)</u>	<u>\$ 5</u>	<u>\$ (26)</u>	<u>\$ (70)</u>	<u>\$ 139</u>

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

All Other Net Unrealized Investment Gains (Losses) in AOCI

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

	Net Unrealized Gains (Losses) on Investments(1)	DAC, DSI, VOBA and Reinsurance Recoverables	Future Policy Benefits, Policyholders' Account Balances and Reinsurance Payables	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2018	\$ 22,531	\$ (738)	\$ (791)	\$ (894)	\$ (5,471)	\$ 14,637
Net investment gains (losses) on investments arising during the period	28,971				(6,579)	22,392
Reclassification adjustment for (gains) losses included in net income	(1,138)				258	(880)
Reclassification adjustment for OTTI losses excluded from net income(2)	39				(9)	30
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		(1,035)			233	(802)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances and reinsurance payables			(2,215)		502	(1,713)
Impact of net unrealized investment (gains) losses on policyholders' dividends				(3,093)	650	(2,443)
Cumulative effect of adoption of ASU 2017-12	9				(2)	7
Balance, September 30, 2019	<u>\$ 50,412</u>	<u>\$ (1,773)</u>	<u>\$ (3,006)</u>	<u>\$ (3,987)</u>	<u>\$ (10,418)</u>	<u>\$ 31,228</u>

(1) Includes cash flow hedges. See Note 5 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.

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

13. EARNINGS PER SHARE

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

	Three Months Ended September 30,					
	2019			2018		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Net income (loss)	\$ 1,425			\$ 1,675		
Less: Income (loss) attributable to noncontrolling interests	7			3		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	15			19		
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ 1,403</u>	<u>404.1</u>	<u>\$ 3.47</u>	<u>\$ 1,653</u>	<u>416.2</u>	<u>\$ 3.97</u>
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$ 15			\$ 19		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	15			19		
Stock options		1.0			1.4	
Deferred and long-term compensation programs		1.2			1.2	
Exchangeable Surplus Notes	<u>1</u>	<u>2.2</u>		<u>5</u>	<u>5.9</u>	
Diluted earnings per share						
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ 1,404</u>	<u>408.5</u>	<u>\$ 3.44</u>	<u>\$ 1,658</u>	<u>424.7</u>	<u>\$ 3.90</u>

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

	Nine Months Ended September 30,					
	2019			2018		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Net income (loss)	\$ 3,100			\$ 3,239		
Less: Income (loss) attributable to noncontrolling interests	42			7		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	33			37		
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ 3,025</u>	<u>406.2</u>	<u>\$ 7.45</u>	<u>\$ 3,195</u>	<u>419.2</u>	<u>\$ 7.62</u>
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$ 33			\$ 37		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	33			37		
Stock options		1.1			1.6	
Deferred and long-term compensation programs		1.1			1.1	
Exchangeable Surplus Notes	12	4.8		16	5.9	
Diluted earnings per share						
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	<u>\$ 3,037</u>	<u>413.2</u>	<u>\$ 7.35</u>	<u>\$ 3,211</u>	<u>427.8</u>	<u>\$ 7.51</u>

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings attributable to Prudential Financial are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. During periods of net income available to holders of Common Stock, the calculation of earnings per share excludes the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of a net loss available to holders of Common Stock, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended September 30, 2019 and 2018, as applicable, were based on 4.5 million and 4.8 million of such awards, respectively, and for the nine months ended September 30, 2019 and 2018, as applicable, were based on 4.6 million and 4.9 million of such awards, respectively, weighted for the period they were outstanding.

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

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

	Three Months Ended September 30,			
	2019		2018	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	1.4	\$ 101.57	0.8	\$ 108.60
Antidilutive stock options due to net loss available to holders of Common Stock	0.0		0.0	
Antidilutive shares based on application of the treasury stock method	0.0		0.0	
Antidilutive shares due to net loss available to holders of Common Stock	0.0		0.0	
Total antidilutive stock options and shares	1.4		0.8	

	Nine Months Ended September 30,			
	2019		2018	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	1.2	\$ 103.35	0.6	\$ 108.46
Antidilutive stock options due to net loss available to holders of Common Stock	0.0		0.0	
Antidilutive shares based on application of the treasury stock method	0.0		0.0	
Antidilutive shares due to net loss available to holders of Common Stock	0.0		0.0	
Total antidilutive stock options and shares	1.2		0.6	

In September 2009, the Company issued \$500 million of surplus notes with an interest rate of 5.36% per annum which were exchangeable at the option of the note holders for shares of Common Stock. In August 2019, as a result of the note holders' exercise of the exchange option, the Company issued approximately 6.2 million shares of Common Stock at an exchange rate equal to 12.3877 shares of Common Stock per each \$1,000 principal amount of surplus notes. The Company's obligations under the surplus notes are now satisfied. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes are outstanding, are added to the denominator, and the related interest expense, net of tax, is excluded from the numerator, if the overall effect is dilutive.

14. SEGMENT INFORMATION

Segments

The Company's principal operations are comprised of five divisions, which together encompass seven segments, and its Corporate and Other operations. The PGIM division consists of the PGIM segment. The U.S. Workplace Solutions division consists of the Retirement and Group Insurance segments. The U.S. Individual Solutions division consists of the Individual Annuities and Individual Life segments. The Company also collectively refers to the U.S. Workplace Solutions division and the U.S. Individual Solutions division as the U.S. Financial Wellness businesses. The International Insurance division consists of the International Insurance segment. The Closed Block division consists of the Closed Block segment. The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in Corporate and Other operations. Divested and Run-off Businesses are comprised of businesses that have been, or will be, sold or exited, including businesses that have been placed in wind down status that do not qualify for "discontinued operations" accounting treatment under U.S. GAAP. The Company's Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested or placed in run-off, excluding the Closed Block division.

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

Adjusted Operating Income

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

- realized investment gains (losses), net, and related adjustments;
- charges related to realized investment gains (losses), net;
- market experience updates;
- net investment gains (losses) on assets supporting experience-rated contractholder liabilities and changes in experience-rated contractholder liabilities due to asset value changes;
- divested and run-off businesses; and
- equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

These items are important to an understanding of overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and the Company’s definition of adjusted operating income may differ from that used by other companies. The Company, however, believes that the presentation of adjusted operating income as measured for management purposes enhances the understanding of results of operations by highlighting the results from ongoing operations and the underlying profitability factors of its businesses. For more information on these reconciling items, see Note 21 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. The Company had historically recognized the immediate impacts from changes in current market conditions on estimates of profitability in current period adjusted operating income. Beginning with the second quarter of 2019, these impacts are excluded from adjusted operating income which the Company believes enhances the understanding of underlying performance trends. These amounts represent the impact of those changes on DAC and other costs and reserves, primarily resulting from variable annuity and variable and universal life products.

Reconciliation of adjusted operating income to net income (loss)

The table below reconciles “Adjusted operating income before income taxes” to “Income (loss) before income taxes and equity in earnings of operating joint ventures”:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Adjusted operating income before income taxes by segment:				
PGIM	\$ 232	\$ 230	\$ 710	\$ 716
Total PGIM division	232	230	710	716
Retirement	302	239	1,020	833
Group Insurance	90	59	224	196
Total U.S. Workplace Solutions division	392	298	1,244	1,029
Individual Annuities(1)	459	454	1,393	1,480
Individual Life	59	170	29	249
Total U.S. Individual Solutions division	518	624	1,422	1,729
International Insurance	791	890	2,562	2,530
Total International Insurance division	791	890	2,562	2,530
Corporate and Other operations	(281)	(374)	(1,028)	(954)
Total Corporate and Other	(281)	(374)	(1,028)	(954)
Total segment adjusted operating income before income taxes	1,652	1,668	4,910	5,050
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	382	271	(829)	751
Charges related to realized investment gains (losses), net	(92)	(94)	(149)	(233)
Market experience updates(2)	(314)	0	(522)	0
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	91	10	832	(586)
Change in experience-rated contractholder liabilities due to asset value changes	(160)	(21)	(876)	482
Divested and Run-off businesses:				
Closed Block division	45	18	5	(22)
Other Divested and Run-off businesses	155	12	441	(1,586)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(34)	(26)	(71)	(75)
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 1,725	\$ 1,838	\$ 3,741	\$ 3,781

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

(2) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. The Company had historically recognized these impacts in adjusted operating income.

Reconciliation of selected financial information

The tables below present certain financial information for the Company's segments and its Corporate and Other operations, including assets by segment and revenues by segment on an adjusted operating income basis, and the reconciliation of the segment totals to amounts reported in the Consolidated Financial Statements.

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

Assets by segment:	September 30, 2019	December 31, 2018
	(in millions)	
PGIM	\$ 46,721	\$ 47,690
Total PGIM division	46,721	47,690
Retirement	189,188	175,525
Group Insurance	43,656	41,727
Total U.S. Workplace Solutions division	232,844	217,252
Individual Annuities	187,519	167,899
Individual Life	93,930	83,739
Total U.S. Individual Solutions division	281,449	251,638
International Insurance	240,535	222,633
Total International Insurance division	240,535	222,633
Corporate and Other operations	21,739	16,826
Total Corporate and Other	21,739	16,826
Closed Block division	62,338	59,039
Total Closed Block division	62,338	59,039
Total assets per Unaudited Interim Consolidated Financial Statements	\$ 885,626	\$ 815,078

Revenues by segment:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in millions)				
Revenues on an adjusted operating income basis:				
PGIM	\$ 855	\$ 817	\$ 2,651	\$ 2,459
Total PGIM division	855	817	2,651	2,459
Retirement	2,261	4,203	8,486	9,280
Group Insurance	1,438	1,430	4,340	4,270
Total U.S. Workplace Solutions division	3,699	5,633	12,826	13,550
Individual Annuities	1,251	1,224	3,774	3,742
Individual Life	1,529	1,454	4,519	4,330
Total U.S. Individual Solutions division	2,780	2,678	8,293	8,072
International Insurance	5,771	5,490	17,424	16,818
Total International Insurance division	5,771	5,490	17,424	16,818
Corporate and Other operations	(177)	(186)	(512)	(549)
Total Corporate and Other	(177)	(186)	(512)	(549)
Total revenues on an adjusted operating income basis	12,928	14,432	40,682	40,350
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	382	271	(829)	751
Charges related to realized investment gains (losses), net	(62)	(60)	(188)	(223)
Market experience updates(1)	(65)	0	(72)	0
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	91	10	832	(586)
Divested and Run-off businesses:				
Closed Block division	1,482	1,249	4,157	3,800
Other Divested and Run-off businesses	389	276	1,113	551
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(40)	(30)	(111)	(83)
Total revenues per Unaudited Interim Consolidated Financial Statements	\$ 15,105	\$ 16,148	\$ 45,584	\$ 44,560

(1) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. The Company had historically recognized these impacts in adjusted operating income.

Intersegment revenues

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
PGIM segment intersegment revenues	\$ 197	\$ 183	\$ 571	\$ 552

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

Asset management and service fees

The table below presents asset management and service fees, predominantly related to investment management activities, for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Asset-based management fees	\$ 881	\$ 876	\$ 2,596	\$ 2,593
Performance-based incentive fees	10	10	108	21
Other fees	147	151	433	459
Total asset management and service fees	<u>\$ 1,038</u>	<u>\$ 1,037</u>	<u>\$ 3,137</u>	<u>\$ 3,073</u>

15. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and Guarantees

Commercial Mortgage Loan Commitments

	September 30, 2019	December 31, 2018
	(in millions)	
Total outstanding mortgage loan commitments	\$ 2,026	\$ 3,299
Portion of commitment where prearrangement to sell to investor exists	\$ 693	\$ 1,490

In connection with the Company's commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. In certain of these transactions, the Company pre-arranges that it will sell the loan to an investor, including to government sponsored entities as discussed below, after the Company funds the loan.

Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	September 30, 2019	December 31, 2018
	(in millions)	
Expected to be funded from the general account and other operations outside the separate accounts	\$ 6,525	\$ 6,941
Expected to be funded from separate accounts	\$ 32	\$ 147

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

The Company has other commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under the Company's control, including those at the discretion of the Company's counterparties. The Company anticipates a portion of these commitments will ultimately be funded from its separate accounts.

Indemnification of Securities Lending and Securities Repurchase Transactions

	September 30, 2019	December 31, 2018
	(in millions)	
Indemnification provided to certain clients for securities lending and securities repurchase transactions(1)	\$ 5,824	\$ 5,399
Fair value of related collateral associated with above indemnifications(1)	\$ 5,957	\$ 5,503
Accrued liability associated with guarantee	\$ 0	\$ 0

(1) As of September 30, 2019, indemnification provided to certain clients and fair value of related collateral associated with such indemnification include \$64 million and \$63 million, respectively, related to securities repurchase transactions.

In the normal course of business, the Company may facilitate securities lending or securities repurchase transactions on behalf of certain client accounts (collectively, "the accounts"). In certain of these arrangements, the Company has provided an indemnification to the accounts to hold them harmless against losses caused by counterparty (i.e., borrower) defaults associated with such transactions facilitated by the Company. In securities lending transactions, collateral is provided by the counterparty to the accounts at the inception of the transaction in an amount at least equal to 102% of the fair value of the loaned securities and the collateral is maintained daily to equal at least 102% of the fair value of the loaned securities. In securities repurchase transactions, collateral is provided by the counterparty to the accounts at the inception of the transaction in an amount at least equal to 95% of the fair value of the securities subject to repurchase and the collateral is maintained daily to equal at least 95% of the fair value of the securities subject to repurchase. The Company is only at risk if the counterparty to the transaction defaults and the value of the collateral held is less than the value of the securities loaned to, or subject to repurchase from, such counterparty. The Company believes the possibility of any payments under these indemnities is remote.

Credit Derivatives Written

As discussed further in Note 5, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security.

Guarantees of Asset Values

	September 30, 2019	December 31, 2018
	(in millions)	
Guaranteed value of third-parties' assets	\$ 80,102	\$ 79,215
Fair value of collateral supporting these assets	\$ 82,037	\$ 77,897
Asset (liability) associated with guarantee, carried at fair value	\$ 1	\$ 2

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives and carried at fair value. The collateral supporting these guarantees is not reflected on the Unaudited Interim Consolidated Statements of Financial Position.

Indemnification of Serviced Mortgage Loans

	September 30, 2019	December 31, 2018
	(in millions)	
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	\$ 2,072	\$ 1,828
First-loss exposure portion of above	\$ 610	\$ 543
Accrued liability associated with guarantees	\$ 19	\$ 17

As part of the commercial mortgage activities of the Company's PGIM segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The

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

Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and makes payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company's percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company determines the liability related to this exposure using historical loss experience, and the size and remaining life of the asset. The Company serviced \$16,370 million and \$14,335 million of mortgages subject to these loss-sharing arrangements as of September 30, 2019 and December 31, 2018, respectively, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of September 30, 2019, these mortgages had a weighted-average debt service coverage ratio of 1.80 times and a weighted-average loan-to-value ratio of 61%. As of December 31, 2018, these mortgages had a weighted average debt service coverage ratio of 1.83 times and a weighted-average loan-to-value ratio of 62%. The Company had no losses related to indemnifications that were settled for both the nine months ended September 30, 2019 and 2018.

Other Guarantees

	September 30, 2019	December 31, 2018
	(in millions)	
Other guarantees where amount can be determined	\$ 68	\$ 77
Accrued liability for other guarantees and indemnifications	\$ 0	\$ 0

The Company is also subject to other financial guarantees and indemnity arrangements. The Company has provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Included above are \$12 million and \$13 million as of September 30, 2019 and December 31, 2018, respectively, of yield maintenance guarantees related to certain investments the Company sold. The Company does not expect to make any payments on these guarantees and is not carrying any liabilities associated with these guarantees.

Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. The accrued liabilities identified above do not include retained liabilities associated with sold businesses.

Contingent Liabilities

On an ongoing basis, the Company and its regulators review its operations including, but not limited to, sales and other customer interface procedures and practices, and procedures for meeting obligations to its customers and other parties. These reviews may result in the modification or enhancement of processes or the imposition of other action plans, including concerning management oversight, sales and other customer interface procedures and practices, and the timing or computation of payments to customers and other parties. In certain cases, if appropriate, the Company may offer customers or other parties 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 flow 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 flow 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.

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

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of the Company's businesses and operations that are specific to it and proceedings that are typical of the businesses in which it operates, including in both cases businesses that have been either divested or placed in wind down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs 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 potentially material, is disclosed, including matters discussed below. The Company estimates that as of September 30, 2019, 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 \$250 million. Any 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.

The following discussion of litigation and regulatory matters provides an update of those matters discussed in Note 22 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, and should be read in conjunction with the complete descriptions provided in the Form 10-K.

Labor and Employment Matters*Prudential of Brazil Labor and Employment Matters*

Prudential of Brazil ("POB") sells insurance products to consumers through life planner franchisees ("Life Planners"), who are engaged as independent life insurance brokers and not as employees. When a Life Planner's contractual relationship with POB is terminated, in many cases the Life Planner commences a labor suit against POB alleging entitlement to employment related benefits. POB is a defendant in numerous such lawsuits in Brazil brought by former Life Planners and has been subject to regulatory actions challenging the validity of POB's franchise model. POB has continued to receive additional labor suits and regulatory actions involving the operation of its franchise model notwithstanding steps that POB has taken to attempt to mitigate the labor risk by modifying its franchise model. POB continues to evaluate changes to its franchise model to further mitigate this risk.

Individual Annuities, Individual Life and Group Insurance*Behfarin v. Pruco Life*

In October 2019, plaintiff filed: (1) the First Amended Complaint adding Prudential Insurance Company of America and Pruco Life Insurance Company of New Jersey as defendants; and (2) a motion seeking preliminary certification of a settlement class, appointment of a class representative and class counsel, and preliminary approval of the proposed class action settlement.

Huffman v. The Prudential Insurance Company of America

In April 2019, the court entered a Final Judgment and Order of Dismissal. This matter is now closed.

Escheatment Litigation*Total Asset Recovery Services, LLC v. MetLife, Inc., et al., Prudential Financial, Inc., The Prudential Insurance Company of America, and Prudential Insurance Agency, LLC*

In April 2019, defendants' motion to dismiss the Second Amended Complaint was granted and plaintiff subsequently filed a Notice of Appeal with the New York State Supreme Court, First Department.

Residential Mortgage-Backed Securities ("RMBS") Trustee Litigation*PICA et al. v. Bank of New York Mellon*

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

In October 2019, the federal court action was dismissed with prejudice. This matter is now closed.

PICA et al. v. Citibank N.A.

In June 2019, the federal court action was dismissed with prejudice, and in September 2019, the state court action was also dismissed with prejudice. This matter is now closed.

PICA et al. v. HSBC, et al.

In May 2019, the court dismissed the case with prejudice. This matter is now closed.

PICA et al. v. U.S. Bank N.A.

In April 2019, a decision and order were issued dismissing plaintiffs' state court action with prejudice. This matter is now closed.

PICA et al. v. Wells Fargo Bank, et al.

In May 2019, the state court entered an Order and Final Judgment approving the class action settlement and dismissing the case with prejudice.

LIBOR Litigation

Prudential Investment Portfolios 2, f/k/a Dryden Core Investment Fund, o/b/o Prudential Core Short-Term Bond Fund and Prudential Core Taxable Money Market Fund v. Bank of America Corporation, et al.

In June 2019, the court issued two orders approving stipulations dismissing with prejudice Prudential's claims against Citigroup Inc., Citibank, N.A., Citigroup Funding Inc., and Citigroup Global Markets Inc.

Regulatory Matters

Securities Lending and Foreign Tax Reclaim Matter

In 2016, the Company self-reported to the SEC and the U.S. Department of Labor ("DOL"), and notified other regulators, that in some cases it failed to maximize securities lending income for the benefit of certain separate account investments due to a long-standing restriction benefiting the Company that limited the availability of loanable securities. The Company has removed the restriction and implemented a remediation plan for the benefit of customers. As part of the Company's review of this matter, in 2018 it further self-reported to the SEC, and notified other regulators, that in some cases it failed to timely process foreign tax reclaims for the separate account investments. The Company has corrected the foreign tax reclaim process and has implemented a remediation plan for the benefit of customers.

The DOL's review of the securities lending matter is closed. In September 2019, the Company reached a settlement of these matters with the SEC. As part of the settlement the Company agreed to pay a fine of \$5 million and disgorgement of \$27.6 million, and consented to the entry of an Administrative Order containing findings that two subsidiaries of the Company violated certain sections of the Investment Advisers Act of 1940 and the Investment Advisers Act Rules and ordering the subsidiaries to cease and desist from committing or causing any violations and any future violations of those provisions. In reaching this settlement, the Company neither admitted nor denied the SEC's findings.

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 flow 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 flow 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,

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

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.

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

16. SUBSEQUENT EVENTS

In October 2019, the Company completed the acquisition of Assurance IQ, Inc. (“Assurance”), a leading consumer solutions platform for health and financial wellness needs, for approximately \$1.8 billion in cash, net of transaction expenses, and restricted Prudential Common Stock and equity awards with a market value of approximately \$0.5 billion as of the closing date. In addition, up to approximately \$1.15 billion in a mix of approximately 25% cash and 75% Prudential Common Stock will be payable in 2023 (subject to acceleration of the maximum payment under certain circumstances) contingent upon Assurance’s achievement of certain targets for gross revenues net of associated selling expenses (“Variable Profits”) over the period from January 1, 2020 through December 31, 2022, as further described below:

- If Variable Profits are less than \$900 million, no additional consideration is payable.
- If Variable Profits are greater than \$1.3 billion, approximately \$1.15 billion in cash and stock is payable.
- If Variable Profits are greater than \$900 million but less than or equal to \$1.3 billion, additional cash and stock is payable in an amount equal to the product of (i) the quotient of (A) an amount equal to (1) Variable Profits achieved minus (2) \$900 million divided by (B) \$400 million and (ii) \$1.15 billion.

The number of shares of Prudential Common Stock issued at closing was determined based on a \$83.71 price per share, which is equal to the daily volume weighted average price of Prudential Common Stock for the 15 trading days before, and 15 trading days beginning on, September 4, 2019, the date of the merger agreement. The number of shares issued as part of the contingent consideration payable in 2023 will also be based on a \$83.71 price per share. As the transaction has closed recently, the purchase accounting has not yet been completed.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) addresses the consolidated financial condition of Prudential Financial, Inc. (“Prudential,” “Prudential Financial,” “PFI,” or “the Company”) as of September 30, 2019, compared with December 31, 2018, and its consolidated results of operations for the three and nine months ended September 30, 2019 and 2018. 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, 2018, 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

Prudential Financial, a financial services leader with approximately \$1.519 trillion of assets under management as of September 30, 2019, has operations primarily in the United States of America (“U.S.”), Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds and investment management. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

Our principal operations are comprised of five divisions, which together encompass seven segments, and our Corporate and Other operations. The PGIM division is comprised of the PGIM segment, our global investment management businesses. The U.S. Workplace Solutions division consists of our Retirement and Group Insurance segments, and the U.S. Individual Solutions division consists of our Individual Annuities and Individual Life segments. We also collectively refer to the U.S. Workplace Solutions division and the U.S. Individual Solutions division as our U.S. Financial Wellness businesses, as described further below. The International Insurance division consists of our International Insurance segment. The Closed Block division consists of our Closed Block segment. The Closed Block division is accounted for as a divested business that is reported separately from the Divested and Run-off Businesses that are included in Corporate and Other operations. Divested and Run-off Businesses are comprised of businesses that have been, or will be, sold or exited, including businesses that have been placed in wind down status that do not qualify for “discontinued operations” accounting treatment under generally accepted accounting principles in the United States of America (“U.S. GAAP”). Our Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested or placed in run-off, excluding the Closed Block division.

Our strategy centers on our mix of high-quality protection, retirement and investment management businesses which creates growth potential due to earnings diversification and the opportunity to provide customers with integrated cross-business solutions, as well as capital benefits from a balanced risk profile. We are well positioned to meet the needs of customers and tap into significant market opportunities through our U.S. Financial Wellness businesses, PGIM (our investment management business) and our International Insurance business.

We attribute financing costs to each segment based on the amount of financing used by each segment, excluding financing costs associated with corporate debt which are reflected in Corporate and Other operations. The net investment income of each segment includes earnings on the amount of capital that management believes is necessary to support the risks of that segment.

U.S. Financial Wellness

Each component of our U.S. Financial Wellness businesses operates at scale, and together, they leverage our broad set of capabilities to meet the evolving needs of customers.

We see an opportunity to address the evolving needs of individual customers, workplace clients, and society at large through our financial wellness solutions. We possess the key components to execute on this strategy, including workplace solutions covering approximately twenty million individuals; solutions that cover protection, retirement, savings, income, and investment needs; and a customer-centric approach with different ways to engage with our clients through multiple channels such as meeting with one of our financial advisors, calling or video-conferencing with an advisor, or interacting with us in a purely digital manner. Our goal is to meet our customers’ needs when, where and how they want. By leveraging technology and our scale, we aim to significantly expand our presence in the market, build deeper and longer-lasting relationships with customers and clients, and make a meaningful difference in the financial wellness of their lives.

We are uniquely positioned to capture this opportunity, helping more customers and clients and driving long-term sustainable growth. We are thus accelerating the transformation of this strategy, to increase our competitive advantage by enhancing the experience of our customers and enabling the capabilities of our businesses, to more rapidly realize the benefits of our margins and growth rate. The catalyst for this transformation is our financial wellness initiative, and at the center of it, is improving the customer experience by re-imagining our end-to-end operations, leveraging state-of-the-art technology, and investing in our talent.

In 2019, we began implementing a multi-year plan of programs that span across our U.S. Financial Wellness businesses and the functional areas that support those businesses (the “Financial Wellness Initiative”). In order to implement these programs on an accelerated basis, we expect to incur significant expenses related to technology, systems, severance, reskilling and related charges. Over the next several years, we also expect to see significant expense efficiencies including from our streamlined technology-enabled processes. In the longer-term, the higher quality customer experience should accelerate revenue growth, resulting from increased revenues in our Workplace Solutions businesses due to the competitiveness of our financial wellness platform and the increased utilization of the existing employer-offered benefits by our clients’ employees, and increased revenues

in our Individual Solutions businesses, due to our ability to provide additional solutions to our clients' employees and to other retail customers.

Voluntary Separation Plan

In October 2019, the Company announced a voluntary separation program to certain eligible U.S.-based employees. This program excludes senior executives and employees in certain roles, including employees in our PGIM investment businesses. This program helps support our objectives to achieve expense efficiencies associated with the Financial Wellness Initiative.

Eligible employees may apply to participate in the program, and their applications are subject to management acceptance. The Company expects to notify employees whether their applications have been accepted late in the fourth quarter of 2019 with their employment end dates expected to occur between February and September of 2020.

The total costs and the associated savings of this program will depend upon a number of factors including, but not limited to, the number of employees who apply to participate and whose applications are accepted by management, and the current roles, compensation and seniority of the accepted employees. The Company expects to record severance-related charges related to the program in the fourth quarter of 2019, leading to a reduction in expenses beginning in 2020. The potential costs and savings associated with the program are expected to accelerate expense efficiencies associated with the Financial Wellness Initiative.

Business Update

We regularly review our existing businesses and may seek to deploy capital in support of our strategy or to exit an operation if it is determined that it no longer aligns with our broader strategy. We continue to invest in our businesses and assess acquisition opportunities to build scale or complement our businesses. For additional information on our strategic acquisitions and dispositions, see “—Results of Operations by Segment” below.

In October 2019, we completed the acquisition of Assurance IQ, Inc. (“Assurance”). Launched in 2016 in Bellevue, Washington, Assurance uses advanced data analytics to enable an extensive network of live agents to sell customized solutions across a broader socio-economic spectrum. We expect that the acquisition of Assurance will enhance the growth of our U.S. Financial Wellness businesses and generate cost savings, and will be modestly accretive to earnings per share and return on equity beginning in 2020. See Note 16 to the Unaudited Interim Consolidated Financial Statements for additional information about the acquisition, including the acquisition consideration. See “Risk Factors” for a description of the risks associated with the acquisition.

Regulatory Developments

Japan Corporate Product Tax Rules

In July 2019, the Japan National Tax Authority issued rules limiting policyholders' tax deductions for premiums paid on certain corporate insurance products. The Company and other life insurers in Japan suspended sales of these products earlier in 2019 in anticipation of the new rules. During the third quarter, we resumed sales in the Life Planner channel. For additional information on sales within our international insurance operations, see “—Results of Operations by Segment—International Insurance Division—International Insurance” below.

SEC Best Interest Regulation

In June 2019, the SEC adopted a package of rulemakings and interpretative guidance that, among other things, requires broker-dealers to act in the best interest of retail customers when recommending securities transactions or investment strategies to them. The guidance also clarifies the SEC's views of the fiduciary duty that investment advisers owe to their clients. The new best interest standards will become effective on June 30, 2020. We are evaluating the impacts of the new standards and have begun to implement them. We believe that the new standards will apply to recommendations to purchase certain products offered by our PGIM, Retirement, Individual Annuities and Individual Life segments, and will result in increased compliance costs, in particular in our Prudential Advisors distribution system, which we include in the results of our Individual Life segment.

SECURE Act

In May 2019, the U.S. House of Representatives passed the Setting Every Community up for Retirement Enhancement (“SECURE”) Act. If enacted into law in its current form, the SECURE Act would help promote retirement plan coverage by expanding access to and use of Multiple Employer Plans; facilitate access to lifetime income disclosures for plan participants to better understand how their retirement savings translate into monthly lifetime income in retirement; improve upon the current

annuity selection safe harbor; and provide lifetime income portability. We cannot predict whether the SECURE Act will ultimately be adopted, or its impact 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, 2018.

Impact of a Low Interest Rate Environment

As a global 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 both deferred policy acquisition costs (“DAC”) and value of business acquired (“VOBA”);
- customer account values, including their impact on fee income;
- fair value of, and possible impairments on, intangible assets such as goodwill;
- 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, 2018.

See below for discussions related to the current interest rate environments in our two largest markets, the U.S. and Japan; the composition of our insurance liabilities and policyholder account balances; and the hypothetical impacts to our investment results if these interest rate environments are sustained.

U.S. Operations excluding the Closed Block Division

Interest rates in the U.S. have experienced a period of historically low levels in large part due to Federal Reserve efforts to assist with the economic recovery subsequent to the financial crisis of 2008. While market conditions and events make uncertain the timing, amount and impact of any monetary policy decisions by the Federal Reserve, changes in interest rates may impact our reinvestment yields, primarily for our investments in fixed maturity securities and commercial mortgage loans. As interest rates rise, our reinvestment yield may exceed the overall portfolio yield resulting in a favorable impact to earnings. Conversely, if interest rates were to decline, our reinvestment yield may be below our overall portfolio yield, resulting in an unfavorable impact to earnings.

For the general account supporting our U.S. Individual Solutions division, U.S. Workplace Solutions division, PGIM division and our Corporate and Other operations, we estimate annual principal payments and prepayments that we would be required to reinvest to be approximately 5.6% of the fixed maturity security and commercial mortgage loan portfolios through 2020. The portion of the general account attributable to these operations has approximately \$219 billion of such assets (based on net carrying value) as of September 30, 2019. The average portfolio yield for fixed maturity securities and commercial mortgage loans is approximately 4.3% as of September 30, 2019.

Included in the \$219 billion of fixed maturity securities and commercial mortgage loans are approximately \$140 billion that are subject to call or redemption features at the issuer’s option and have a weighted average interest rate of approximately 4%. Of this \$140 billion, approximately 57% contain provisions for prepayment premiums. If we reinvest scheduled payments or prepayments (not subject to a prepayment fee) at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, future operating results will be impacted to the extent we do not, or are unable to, reduce crediting rates on in-force blocks of business, or effectively utilize other asset/liability management strategies described below, in order to maintain current net interest margins.

The following table sets forth the insurance liabilities and policyholder account balances of our U.S. Operations excluding the Closed Block Division, by type, for the date indicated:

	As of September 30, 2019
	(in billions)
Long-duration insurance products with fixed and guaranteed terms	\$ 136
Contracts with adjustable crediting rates subject to guaranteed minimums	58
Participating contracts where investment income risk ultimately accrues to contractholders	15
Total	\$ 209

The \$136 billion above relates to long-duration products such as group annuities, structured settlements and other insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. We seek to mitigate the impact of a prolonged low interest rate environment on these contracts through asset/liability management, as discussed further below.

The \$58 billion above relates to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Although we may have the ability to lower crediting rates for those contracts above guaranteed minimums, our willingness to do so may be limited by competitive pressures. The following table sets forth the related account values by range of guaranteed minimum crediting rates and the related range of the difference, in basis points (“bps”), between rates being credited to contractholders as of September 30, 2019, and the respective guaranteed minimums.

Account Values with Adjustable Crediting Rates Subject to Guaranteed Minimums:						
	At guaranteed minimum	1-49 bps above guaranteed minimum	50-99 bps above guaranteed minimum	100-150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
	(\$ in billions)					
Range of Guaranteed Minimum Crediting Rates:						
Less than 1.00%	\$ 0.6	\$ 1.2	\$ 0.5	\$ 0.1	\$ 0.0	\$ 2.4
1.00% - 1.99%	1.1	3.9	12.0	1.8	0.8	19.6
2.00% - 2.99%	1.3	0.8	0.5	2.6	1.0	6.2
3.00% - 4.00%	26.4	2.0	0.1	0.2	0.0	28.7
Greater than 4.00%	0.9	0.0	0.0	0.0	0.0	0.9
Total(1)	\$ 30.3	\$ 7.9	\$ 13.1	\$ 4.7	\$ 1.8	\$ 57.8
Percentage of total	52%	14%	23%	8%	3%	100%

(1) Includes approximately \$0.72 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity.

The remaining \$15 billion of insurance liabilities and policyholder account balances in these operations relates to participating contracts for which the investment income risk is expected to ultimately accrue to contractholders. The crediting rates for these contracts are periodically adjusted based on the return earned on the related assets.

Assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 1.65% (which is reasonably consistent with the current rate) for the period from October 1, 2019 through December 31, 2020 (and credit spreads remain unchanged from levels as of September 30, 2019), we estimate that the unfavorable impact to net investment income of reinvesting scheduled maturities and estimated prepayments of fixed maturities and commercial mortgage and other loans (excluding assets supporting participating contracts) would be between \$50 and \$100 million for the period from October 1, 2019 through December 31, 2020.

In order to mitigate the unfavorable impact that a low interest rate environment has on our net interest margins, we employ a proactive asset/liability management program, which includes strategic asset allocation and hedging strategies within a disciplined risk management framework. These strategies seek to match the characteristics of our products, and to closely approximate the interest rate sensitivity of the assets with the estimated interest rate sensitivity of the product liabilities. Our asset/liability management program also helps manage duration gaps, currency and other risks between assets and liabilities through the use of derivatives. We adjust this dynamic process as products change, as customer behavior changes and as changes in the market environment occur. As a result, our asset/liability management process has permitted us to manage the interest rate risk associated with our products through several market cycles. Our interest rate exposure is also mitigated by our business mix, which includes lines of business for which fee-based and insurance underwriting earnings play a more prominent role in product profitability.

Closed Block Division

Substantially all of the \$61 billion of general account assets in the Closed Block division support obligations and liabilities relating to the Closed Block policies only. See Note 8 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

International Insurance Operations

While our international insurance operations have experienced a low interest rate environment for many years, the current reinvestment yields for certain blocks of business in our international insurance operations are generally lower than the current portfolio yield supporting these blocks of business. In recent years, the Bank of Japan's monetary policy has resulted in even lower and, at times, negative yields for certain tenors of government bonds. Our international insurance operations employ a proactive asset/liability management program in order to mitigate, to the extent possible, the unfavorable impact that the current interest rate environment has on our net interest margins. In conjunction with this program, we have not purchased negative yielding assets to support the portfolio and we continue to purchase long-term bonds with tenors of 30 years or greater. Additionally, our diverse product portfolio in terms of currency mix and premium payment structure allows us to further mitigate the negative impact from this low interest rate environment. We regularly examine our product offerings and their profitability. As a result, we have repriced certain products, adjusted commissions for certain products and have discontinued sales of other products that do not meet our profit expectations. The impact of these actions and the introduction of certain new products, has resulted in an increase in sales of U.S. dollar-denominated products relative to products denominated in other currencies. For additional information on sales within our international insurance operations, see "—International Insurance Division—International Insurance—Sales Results," below.

The following table sets forth the insurance liabilities and policyholder account balances of our Japanese operations, by type, for the date indicated:

	As of September 30, 2019 (in billions)	
Insurance products with fixed and guaranteed terms	\$	126
Contracts with a market value adjustment if invested amount is not held to maturity		26
Contracts with adjustable crediting rates subject to guaranteed minimums		11
Total	\$	163

Of the \$126 billion above, \$125 billion is comprised of long-duration insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than current portfolio yields. The remaining insurance liabilities and policyholder account balances include \$26 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity and \$11 billion related to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Most of the current crediting rates on these contracts, however, are at or near contractual minimums. Although we have the ability in some cases to lower crediting rates for those contracts that are above guaranteed minimum crediting rates, the majority of this business has interest crediting rates that are determined by formula.

Assuming a hypothetical scenario where the average 30-year Japanese Government Bond yield is 0.40% and the 10-year U.S. Treasury rate is 1.65% (which is reasonably consistent with the current rates) for the period from October 1, 2019 through December 31, 2020 (and credit spreads remain unchanged from levels as of September 30, 2019), we estimate that the unfavorable impact to net investment income of reinvesting scheduled maturities and estimated prepayments of fixed maturities and commercial mortgage and other loans (excluding assets supporting participating contracts) would be between \$50 and \$100 million for the period from October 1, 2019 through December 31, 2020.

Results of Operations

Consolidated Results of Operations

The following table summarizes net income (loss) for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Revenues	\$ 15,105	\$ 16,148	\$ 45,584	\$ 44,560
Benefits and expenses	13,380	14,310	41,843	40,779
Income (loss) before income taxes and equity in earnings of operating joint ventures	1,725	1,838	3,741	3,781
Income tax expense (benefit)	332	184	726	604
Income (loss) before equity in earnings of operating joint ventures	1,393	1,654	3,015	3,177
Equity in earnings of operating joint ventures, net of taxes	32	21	85	62
Net income (loss)	1,425	1,675	3,100	3,239
Less: Income attributable to noncontrolling interests	7	3	42	7
Net income (loss) attributable to Prudential Financial, Inc.	\$ 1,418	\$ 1,672	\$ 3,058	\$ 3,232

Three Month Comparison. The \$254 million decrease in “Net income (loss) attributable to Prudential Financial, Inc.” for the third quarter of 2019 compared to the third quarter of 2018 reflected the following notable items:

- \$476 million unfavorable variance, on a pre-tax basis, reflecting the net impact from changes in the value of our embedded derivatives and related hedge positions associated with certain variable annuities (see “—Results of Operations by Segment—U.S. Financial Wellness Businesses - U.S. Individual Solutions Division—Individual Annuities—Variable Annuity Risks and Risk Mitigants” for additional information);
- \$278 million unfavorable variance, on a pre-tax basis, driven by market experience updates; and
- \$148 million unfavorable variance from higher income tax expense primarily due to the impact of the tax reform and certain other tax matters on the prior year period (see Note 9 to the Unaudited Interim Consolidated Financial Statements for additional information).

Partially offsetting these decreases in “Net income (loss) attributable to Prudential Financial, Inc.” was the following item:

- \$716 million favorable variance from net pre-tax realized investment gains and losses for PFI excluding the Closed Block division, and excluding the impact of the hedging program associated with certain variable annuities discussed above (see “—General Account Investments” for additional information).

Nine Month Comparison. The \$174 million decrease in “Net income (loss) attributable to Prudential Financial, Inc.” for the first nine months of 2019 compared to the first nine months of 2018 reflected the following notable items:

- \$1,793 million unfavorable variance, on a pre-tax basis, reflecting the net impact from changes in the value of our embedded derivatives and related hedge positions associated with certain variable annuities (see “—Results of Operations by Segment—U.S. Financial Wellness Businesses - U.S. Individual Solutions Division—Individual Annuities—Variable Annuity Risks and Risk Mitigants” for additional information);
- \$441 million unfavorable variance, on a pre-tax basis, driven by market experience updates;
- \$122 million unfavorable variance from higher income tax expense primarily due to the impact of the tax reform and certain other tax matters on the prior year period (see Note 9 to the Unaudited Interim Consolidated Financial Statements for additional information); and
- \$33 million unfavorable variance from net pre-tax realized investment gains and losses for PFI excluding the Closed Block division, and excluding the impact of the hedging program associated with certain variable annuities discussed above (see “—General Account Investments” for additional information).

Partially offsetting these decreases in “Net income (loss) attributable to Prudential Financial, Inc.” were the following items:

- \$1,624 million favorable variance, on a pre-tax basis, from adjustments to reserves as well as DAC and other costs, reflecting the impact of our annual reviews and update of assumptions and other refinements. This excludes the impact associated with the variable annuity hedging program discussed above (see “—Results of Operations by Segment—U.S. Financial Wellness Businesses - U.S. Individual Solutions Division—Individual Annuities” for additional information); and
- \$595 million net favorable variance, on a pre-tax basis, primarily from income in the current period from our Divested and Run-off Businesses compared to a loss in the prior period, excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above.

Segment Results of Operations

We analyze the performance of our segments and Corporate and Other operations using a measure of segment profitability called adjusted operating income. See “—Segment Measures” for a discussion of adjusted operating income and its use as a measure of segment operating performance.

Summary of Results of Operations by Segment

Shown below are the adjusted operating income contributions of each segment and Corporate and Other operations for the periods indicated and a reconciliation of this segment measure of performance to “Income (loss) before income taxes and equity in earnings of operating joint ventures” as presented in our Unaudited Interim Consolidated Statements of Operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in millions)				
Adjusted operating income before income taxes by segment:				
PGIM	\$ 232	\$ 230	\$ 710	\$ 716
Total PGIM division	232	230	710	716
Retirement	302	239	1,020	833
Group Insurance	90	59	224	196
Total U.S. Workplace Solutions division	392	298	1,244	1,029
Individual Annuities	459	454	1,393	1,480
Individual Life	59	170	29	249
Total U.S. Individual Solutions division	518	624	1,422	1,729
International Insurance	791	890	2,562	2,530
Total International Insurance division	791	890	2,562	2,530
Corporate and Other operations	(281)	(374)	(1,028)	(954)
Total Corporate and Other	(281)	(374)	(1,028)	(954)
Total segment adjusted operating income before income taxes	1,652	1,668	4,910	5,050
Reconciling items:				
Realized investment gains (losses), net, and related adjustments(1)	382	271	(829)	751
Charges related to realized investment gains (losses), net(2)	(92)	(94)	(149)	(233)
Market experience updates(3)	(314)	0	(522)	0
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net(4)	91	10	832	(586)
Change in experience-rated contractholder liabilities due to asset value changes(5)	(160)	(21)	(876)	482
Divested and Run-off Businesses(6):				
Closed Block division	45	18	5	(22)
Other Divested and Run-off Businesses	155	12	441	(1,586)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(7)	(34)	(26)	(71)	(75)
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 1,725	\$ 1,838	\$ 3,741	\$ 3,781

- (1) Represents “Realized investment gains (losses), net,” and related adjustments. See “—General Account Investments” and Note 14 to our Unaudited Interim Consolidated Financial Statements for additional information.
- (2) Includes charges that represent the impact of realized investment gains (losses), net, on the amortization of DAC and other costs, and on changes in reserves. Also includes charges resulting from payments related to market value adjustment features of certain of our annuity products and the impact of realized investment gains (losses), net, on the amortization of unearned revenue reserves.
- (3) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. The Company had historically recognized these impacts in adjusted operating income. See Note 14 to our Unaudited Interim Consolidated Financial Statements for additional information.
- (4) Represents net investment gains (losses) on assets supporting experience-rated contractholder liabilities. See “—Experience-Rated Contractholder Liabilities, Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments.”
- (5) Represents changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. See “—Experience-Rated Contractholder Liabilities, Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments.”
- (6) Represents the contribution to income (loss) of Divested and Run-off Businesses that have been or will be sold or exited, including businesses that have been placed in wind down, but that did not qualify for “discontinued operations” accounting treatment under U.S. GAAP. See “—Divested and Run-off Businesses.”
- (7) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from “Income (loss) before income taxes and equity in earnings of operating joint ventures” as they are reflected on an after-tax U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in “Income (loss) before income taxes and equity in earnings of operating joint ventures” as they are reflected on a U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

Results for the periods presented above reflect the following:

PGIM. Segment results for the third quarter of 2019 increased in comparison to the prior year period, reflecting higher asset management fees and other related revenues, largely offset by higher expenses. Segment results for the first nine months of 2019 decreased in comparison to the prior year period, reflecting higher expenses and charges associated with a joint venture, partially offset by increases in asset management fees and other related revenues.

Retirement. Segment results for the third quarter of 2019 increased in comparison to the prior year period, primarily reflecting higher net investment spread results and more favorable reserve experience. Segment results for the first nine months of 2019 increased in comparison to the prior year period, primarily reflecting a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding this item, segment results decreased compared to the prior year period, driven by higher expenses, less favorable reserve experience and lower net investment spread results.

Group Insurance. Segment results for the third quarter of 2019 increased in comparison to the prior year period, primarily reflecting more favorable underwriting results and lower expenses. Segment results for the first nine months of 2019 increased in comparison to the prior year period, primarily reflecting more favorable underwriting results, lower expenses and higher net investment spread results. These increases were partially offset by a less favorable net impact from our annual reviews and update of assumptions and other refinements compared to the prior year period.

Individual Annuities. Segment results for the third quarter of 2019 increased in comparison to the prior year period, primarily reflecting an unfavorable impact of changes in the estimated profitability of the business in the prior period results (beginning in the second quarter of 2019, this activity is excluded from adjusted operating income — see Note 14 to the Unaudited Interim Consolidated Financial Statements for further information) and higher net investment spread results, partially offset by lower net fee income. Segment results for the first nine months of 2019 decreased in comparison to the prior year period, inclusive of an unfavorable comparative net impact from our annual reviews and update of assumptions and other reserve refinements. Excluding this item, segment results decreased driven by lower net fees, higher expenses and capital hedge costs, partially offset by higher net investment spread results and a favorable comparative impact of changes in the estimated profitability of the business as discussed above.

Individual Life. Segment results for the third quarter of 2019 decreased in comparison to the prior year period, primarily reflecting less favorable underwriting results and higher expenses, partially offset by a higher contribution from net investment spread results. Segment results for the first nine months of 2019 decreased in comparison to the prior year period, primarily reflecting an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements, less favorable underwriting results and higher expenses, partially offset by a higher contribution from net investment spread results, and a favorable net impact in the first quarter of 2019 from changes in the estimated profitability of the business. Beginning in the second quarter of 2019, this activity is excluded from adjusted operating income (see Note 14 to the Unaudited Interim Consolidated Financial Statements for further information).

International Insurance. Segment results for the third quarter of 2019 decreased in comparison to the prior period, inclusive of a favorable net impact from foreign currency exchange rates, primarily reflecting higher expenses, partially offset by business growth and more favorable underwriting results, as well as higher net investment spread results. Segment results for the first nine months of 2019 increased in comparison to the prior year period, inclusive of a favorable net impact from foreign currency exchange rates and a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Excluding these items, segment results decreased primarily reflecting higher expenses, partially offset by business growth and more favorable underwriting results, as well as higher net investment spread results.

Corporate and Other operations. Results for the third quarter of 2019 reflected decreased losses in comparison to the prior year period, primarily driven by lower corporate expenses and higher net investment income, partially offset by higher capital debt interest expense. Results for the first nine months of 2019 reflected increased losses in comparison to the prior year period, driven by higher corporate expenses, higher capital debt interest expense and lower income from our qualified pension plan, partially offset by higher net investment income.

Closed Block Division. The Closed Block division results for the third quarter of 2019 increased in comparison to the prior year period, primarily driven by an increase in net realized investment gains and net investment income, partially offset by an increase in the policyholder dividend obligation. The results for the first nine months of 2019 increased in comparison to the prior year period, primarily driven by an increase in net realized investment gains, partially offset by a decrease in net insurance activity, a decrease in net investment income, and an increase in the policyholder dividend obligation.

Segment Measures

Adjusted Operating Income. In managing our business, we analyze our segments' operating performance using "adjusted operating income." Adjusted operating income does not equate to "Income (loss) before income taxes and equity in earnings of operating joint ventures" or "Net income (loss)" as determined in accordance with U.S. GAAP, but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is our measure of segment performance. The adjustments to derive adjusted operating income are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and our definition of adjusted operating income may differ from that used by other companies. However, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances the understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses.

See Note 14 to the Unaudited Interim Consolidated Financial Statements for further information on the presentation of segment results and our definition of adjusted operating income.

Annualized New Business Premiums. In managing our Individual Life, Group Insurance and International Insurance businesses, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP. Annualized new business premiums measure the current sales performance of the business, while revenues primarily reflect the renewal persistency of policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums include 10% of first year premiums or deposits from single pay products. No other adjustments are made for limited pay contracts.

The amount of annualized new business premiums for any given period can be significantly impacted by several factors, including but not limited to: addition of new products, discontinuation of existing products, changes in credited interest rates for certain products and other product modifications, changes in premium rates, changes in tax laws, changes in regulations or changes in the competitive environment. Sales volume may increase or decrease prior to certain of these changes becoming effective, and then fluctuate in the other direction following such changes.

Assets Under Management. In managing our PGIM business, we analyze assets under management (which do not correspond directly to U.S. GAAP assets) because the principal source of revenues is fees based on assets under management. Assets under management represent the fair market value or account value of assets which we manage directly for institutional clients, retail clients, and for our general account, as well as assets invested in our products that are managed by third-party managers.

Account Values. In managing our Individual Annuities and Retirement businesses, we analyze account values, which do not correspond to U.S. GAAP assets. Net sales (redemptions) in our Individual Annuities business and net additions (withdrawals) in our Retirement business do not correspond to revenues under U.S. GAAP, but are used as a relevant measure of business activity.

Impact of Foreign Currency Exchange Rates

Foreign currency exchange rate movements and related hedging strategies

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are subject to foreign currency exchange rate movements that could impact our U.S. dollar ("USD")-equivalent earnings and shareholder return on equity. Our USD-equivalent earnings could be materially affected by currency fluctuations from period to period, even if earnings on a local currency basis are relatively constant. Our USD-equivalent equity is impacted as the value of our investment in international operations may also fluctuate based on changes in foreign currency exchange rates. We seek to mitigate these impacts through various hedging strategies, including the use of derivative contracts and by holding USD-denominated assets in certain of our foreign subsidiaries.

In order to reduce earnings volatility from foreign currency exchange rate movements, we enter into forward currency derivative contracts to effectively fix the currency exchange rates for a portion of our prospective non-USD-denominated earnings streams. This forward currency hedging program is primarily associated with our insurance operations in Japan and Korea.

In order to reduce equity volatility from foreign currency exchange rate movements, we primarily utilize a yen hedging strategy that calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company's overall return on equity on a leverage neutral basis. We implement this hedging strategy utilizing a variety of instruments, including USD-denominated assets, foreign currency derivative contracts, and dual currency and synthetic dual currency investments held locally in our Japanese insurance subsidiaries. The total hedge level may vary based on our periodic assessment of the relative contribution of our yen-based business to the Company's overall return on equity.

The table below presents the aggregate amount of instruments that serve to hedge the impact of foreign currency exchange movements on our USD-equivalent shareholder return on equity from our Japanese insurance subsidiaries as of the dates indicated.

	September 30, 2019	December 31, 2018
	(in billions)	
Foreign currency hedging instruments:		
Hedging USD-equivalent earnings:		
Forward currency contracts (notional amount outstanding)	\$ 0.8	\$ 1.3
Hedging USD-equivalent equity:		
USD-denominated assets held in yen-based entities(1)	13.0	13.5
Dual currency and synthetic dual currency investments(2)	0.6	0.6
Total USD-equivalent equity foreign currency hedging instruments	13.6	14.1
Total foreign currency hedges	\$ 14.4	\$ 15.4

(1) Includes USD-denominated fixed maturities at amortized cost plus any related accrued investment income, as well as USD notional amount of foreign currency derivative contracts outstanding. Note this amount represents only those USD assets serving to hedge the impact of foreign currency volatility on equity. Separate from this program, our Japanese operations also have \$57.2 billion and \$48.9 billion as of September 30, 2019 and December 31, 2018, respectively, of USD-denominated assets supporting USD-denominated liabilities related to USD-denominated products.

(2) Dual currency and synthetic dual currency investments are held by our yen-based entities in the form of fixed maturities and loans with a yen-denominated principal component and USD-denominated interest income. The amounts shown represent the present value of future USD-denominated cash flows.

The USD-denominated investments that hedge the impact of foreign currency exchange rate movements on USD-equivalent earnings and shareholder return on equity from our Japanese insurance operations are reported within yen-based entities and, as a result, foreign currency exchange rate movements will impact their value reported within our yen-based Japanese insurance entities. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of these USD-denominated investments reported within our yen-based Japanese insurance entities, and therefore negatively impact their equity and regulatory solvency margins, by having our Japanese insurance operations enter into currency hedging transactions. Those hedges are with a subsidiary of Prudential Financial. These hedging strategies have the economic effect of moving the change in value of these USD-denominated investments due to foreign currency exchange rate movements from our Japanese yen-based entities to our USD-based entities.

These USD-denominated investments also pay a coupon which is generally higher than what a similar yen-denominated investment would pay. The incremental impact of this higher yield on our USD-denominated investments, as well as our dual currency and synthetic dual currency investments, will vary over time, and is dependent on the duration of the underlying investments as well as interest rate environments in both the U.S. and Japan at the time of the investments.

Impact of intercompany foreign currency exchange rate arrangements on segment results of operations

The financial results of our International Insurance and PGIM segments reflect the impact of intercompany arrangements with our Corporate and Other operations pursuant to which certain of these segments' non-USD-denominated earnings are translated at fixed currency exchange rates. Results of our Corporate and Other operations include any differences between the translation adjustments recorded by the segments at the fixed currency exchange rate versus the actual average rate during the period. In addition, specific to our International Insurance segment where we hedge certain currencies, the results of our Corporate and Other operations also include the impact of any gains or losses recorded from the forward currency contracts that settled during the period, which include the impact of any over or under hedging of actual earnings that differ from projected earnings.

For International Insurance, the fixed currency exchange rates are generally determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment's USD-equivalent earnings. Pursuant to this program, our Corporate and Other operations execute forward currency contracts with third-parties to sell the net exposure of projected earnings for certain currencies in exchange for USD at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-USD-denominated earnings are expected to be generated. In establishing the level of non-USD-denominated earnings that will be hedged through this program, we exclude the anticipated level of USD-denominated earnings that will be generated by USD-denominated products and investments. For the nine months ended September 30, 2019, approximately 15% of the segment's earnings were yen-based and, as of September 30, 2019, we have hedged 100% of expected yen-based earnings for 2019, and 97% and 61% of expected yen-based earnings for 2020 and 2021, respectively. To the extent currently unhedged, our International Insurance segment's future expected USD-equivalent of yen-based earnings will be impacted by yen exchange rate movements.

As a result of these arrangements, our International Insurance segment's results for 2019 and 2018 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 105 and 111 yen per USD, respectively, and Korean won-denominated earnings at fixed currency exchange rates of 1,110 and 1,150 Korean won per USD, respectively. We expect our 2020 results to reflect the impact of translating yen-denominated earnings at a fixed currency exchange rate of 104 yen per USD and Korean won-denominated earnings at a fixed currency exchange rate of 1,090 won per USD. Since determination of the fixed currency exchange rates for a given year is impacted by changes in foreign currency exchange rates over time, the segment's future earnings will ultimately be impacted by these changes in exchange rates.

As a result of these arrangements, for PGIM and certain other currencies within International Insurance, the fixed currency exchange rates for the current year are predetermined during the third quarter of the prior year using forward currency exchange rates.

The table below presents, for the periods indicated, the increase (decrease) to revenues and adjusted operating income for the International Insurance and PGIM segments and for Corporate and Other operations, reflecting the impact of these intercompany arrangements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Segment impacts of intercompany arrangements:				
International Insurance	\$ 10	\$ 7	\$ 39	\$ (14)
PGIM	1	0	4	(1)
Impact of intercompany arrangements(1)	11	7	43	(15)
Corporate and Other operations:				
Impact of intercompany arrangements(1)	(11)	(7)	(43)	15
Settlement gains (losses) on forward currency contracts(2)	19	6	51	(24)
Net benefit (detriment) to Corporate and Other operations	8	(1)	8	(9)
Net impact on consolidated revenues and adjusted operating income	\$ 19	\$ 6	\$ 51	\$ (24)

(1) Represents the difference between non-USD-denominated earnings translated on the basis of weighted average monthly currency exchange rates versus fixed currency exchange rates determined in connection with the foreign currency income hedging program.

(2) As of September 30, 2019 and 2018, the notional amounts of these forward currency contracts within our Corporate and Other operations were \$2.3 billion and \$2.8 billion, respectively, of which \$0.8 billion and \$1.4 billion, respectively, were related to our Japanese insurance operations.

Impact of products denominated in non-local currencies on U.S. GAAP earnings

While our international insurance operations offer products denominated in local currency, several also offer products denominated in non-local currencies, most notably our Japanese operations, which offer USD- and Australian dollar ("AUD")-denominated products. The non-local currency-denominated insurance liabilities related to these products are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While the impact from foreign currency exchange rate movements on these non-local currency-denominated assets and liabilities is economically matched, differences in the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements have historically resulted in volatility in U.S. GAAP earnings.

In the first quarter of 2015 we implemented a structure in Gibraltar Life's operations that disaggregated the USD- and AUD-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The result of this alignment was to reduce differences in the accounting for changes in the value of these assets and liabilities that arise due to changes in foreign currency exchange rate movements. For the USD- and AUD-denominated assets that were transferred under this structure, the net cumulative unrealized investment gains associated with foreign exchange remeasurement that were recorded in "Accumulated other comprehensive income (loss)" ("AOCI") totaled \$2.8 billion and \$3.2 billion as of September 30, 2019 and December 31, 2018, respectively, and will be recognized in earnings within "Realized investment gains (losses), net" over time as these assets mature or are sold. Absent the sale of any of these assets prior to their stated maturity, approximately 2% of the \$2.8 billion balance as of September 30, 2019 will be recognized throughout the remainder of 2019, approximately 13% will be recognized in 2020, and a majority of the remaining balance will be recognized from 2021 through 2024.

Highly inflationary economy in Argentina

Our insurance operations in Argentina, Prudential of Argentina (“POA”), have historically utilized the Argentine peso as the functional currency given it is the currency of the primary economic environment in which the entity operates. During 2018, Argentina experienced a cumulative inflation rate that exceeded 100% over a 3-year period. As a result, Argentina’s economy was deemed to be highly inflationary resulting in reporting changes effective July 1, 2018. Under U.S. GAAP, the financial statements of a foreign entity in a highly inflationary economy are to be remeasured as if its functional currency (formerly the Argentine peso) is the reporting currency of its parent reporting entity (the USD) on a prospective basis. While this changed how the results of POA are remeasured and/or translated into USD, the impact to our financial statements was not material nor is it expected to be material in future periods given the relative size of our POA operations. It should also be noted that due to the macroeconomic environment in Argentina, substantially all of POA’s balance sheet consists of USD-denominated product liabilities supported by USD-denominated assets. As a result, this accounting change serves to reduce the remeasurement impact reflected in net income given that the functional currency and currency in which the assets and liabilities are denominated will be more closely aligned.

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, deferred sales inducements (“DSI”) and VOBA;
- Policyholder liabilities;
- Goodwill;
- Valuation of investments, including derivatives, and the recognition of other-than-temporary impairments (“OTTI”);
- Pension and other postretirement benefits;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

Market Performance - Equity and Interest Rate Assumptions

DAC, DSI and VOBA associated with the variable and universal life policies of our Individual Life and International Insurance segments and the variable and fixed annuity contracts of our Individual Annuities and International Insurance segments are generally amortized over the expected lives of these policies in proportion to total gross profits. Total gross profits include both actual gross profits and estimates of gross profits for future periods. The quarterly adjustments for market performance reflect the impact of changes to our estimate of total gross profits to reflect actual fund performance and market conditions. A significant portion of gross profits for our variable annuity contracts and, to a lesser degree, our variable life policies are dependent upon the total rate of return on assets held in separate account investment options. This rate of return influences the fees we earn, costs we incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts, as well as other sources of profit. Returns that are higher than our expectations for a given period produce higher than expected account balances, which increase the future fees we expect to earn and decrease the future costs we expect to incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts. The opposite occurs when returns are lower than our expectations. The changes in future expected gross profits are used to recognize a cumulative adjustment to all prior periods’ amortization.

Furthermore, the calculation of the estimated liability for future policy benefits related to certain insurance products includes an estimate of associated revenues and expenses that are dependent on both historical market performance as well as estimates of market performance in the future. Similar to DAC, DSI and VOBA described above, these liabilities are subject to quarterly adjustments for experience including market performance, in addition to annual adjustments resulting from our annual reviews of assumptions.

The weighted average rate of return assumptions used in developing estimated market returns consider many factors specific to each business, including asset durations, asset allocations and other factors. With regard to equity market assumptions, the near-term future rate of return assumption used in evaluating DAC, DSI and VOBA and liabilities for future policy benefits for certain of our products, primarily domestic variable annuity and variable life insurance products, is generally updated each quarter and is 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 15.0%, we use our maximum future rate of return. As of September 30, 2019, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 4.6% near-term mean reversion equity expected rate of return.

With regard to interest rate assumptions used in evaluating DAC, DSI and VOBA and liabilities for future policy benefits for certain of our products, we update the long-term and near-term future rates used to project fixed income returns annually and quarterly, respectively. As a result of our 2019 annual reviews and update of assumptions and other refinements, we kept our long-term expectation of the 10-year U.S. Treasury rate and 10-year Japanese Government Bond yields unchanged and continue to grade to rates of 3.75% and 1.30%, respectively, over ten years. As part of our quarterly market experience updates, we update our near-term projections of interest rates to reflect changes in current rates.

Adoption of New Accounting Pronouncements

ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB on August 15, 2018 and is expected to have a significant impact on the Company’s Consolidated Financial Statements and Notes to the Consolidated Financial Statements. In October 2019, the FASB affirmed its decision to defer the effective date of the ASU to January 1, 2022 (with early adoption permitted), representing a one year extension from the original effective date of January 1, 2021. See Note 2 to our Unaudited Interim Consolidated Financial Statements for a more detailed discussion of ASU 2018-12, as well as other accounting pronouncements issued but not yet adopted and newly adopted accounting pronouncements.

Results of Operations by Segment

PGIM Division

PGIM

Business Update

- In the first quarter of 2019, we completed the acquisition of Wadhwani Asset Management LLP, a London-based quantitative macro-focused investment management firm, and renamed the firm QMA Wadhwani LLP, which now operates as part of our QMA business.
- In the third quarter of 2019, we completed the acquisition of our joint venture partner’s share of our India-based asset management joint venture, DHFL Pramerica Asset Managers, and re-named the business PGIM India Asset Management.

Operating Results

The following table sets forth the PGIM segment’s operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Operating results(1):				
Revenues	\$ 855	\$ 817	\$ 2,651	\$ 2,459
Expenses	623	587	1,941	1,743
Adjusted operating income	232	230	710	716
Realized investment gains (losses), net, and related adjustments	0	(2)	1	(14)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(7)	(4)	28	(23)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 225	\$ 224	\$ 739	\$ 679

(1) Certain of our PGIM segment's investment activities are based in currencies other than the U.S. dollar and are therefore subject to foreign currency exchange rate risk. The financial results of our PGIM segment include the impact of an intercompany arrangement with our Corporate and Other operations designed to mitigate the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. For more information related to this intercompany arrangement, see "—Results of Operations—Impact of Foreign Currency Exchange Rates," above.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$2 million. The increase reflected higher asset management fees, net of related expenses, driven by an increase in average assets under management as a result of fixed income market appreciation and flows. Also contributing to the increase were higher other related revenues, net of associated expenses, primarily driven by higher commercial mortgage loan originations. These increases were largely offset by an increase in non-compensation related expenses including those supporting business growth.

Nine Month Comparison. Adjusted operating income decreased \$6 million. The decrease reflected higher non-compensation expenses including those supporting business growth initiatives and charges associated with a joint venture. Partially offsetting the decrease were higher asset management fees reflecting an increase in average assets under management driven by fixed income market appreciation and flows, net of related expenses including certain long-term employee compensation plans tied to Company stock and equity market performance. Also contributing to the partial offset were higher other related revenues, net of associated expenses, primarily driven by higher net performance-based incentive fees.

Revenues and Expenses

The following table sets forth the PGIM segment's revenues, presented on a basis consistent with the table above under "—Operating Results," by type.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Revenues by type:				
Asset management fees by source:				
Institutional customers	\$ 323	\$ 302	\$ 954	\$ 893
Retail customers(1)	223	221	652	657
General account	130	118	385	353
Total asset management fees	676	641	1,991	1,903
Other related revenues by source:				
Incentive fees	10	13	108	24
Transaction fees	5	5	17	23
Strategic investing	3	7	57	60
Commercial mortgage(2)	32	23	83	79
Total other related revenues(3)	50	48	265	186
Service, distribution and other revenues(4)	129	128	395	370
Total revenues	\$ 855	\$ 817	\$ 2,651	\$ 2,459

(1) Consists of fees from: individual mutual funds and variable annuities and variable life insurance separate account assets; funds invested in proprietary mutual funds through our defined contribution plan products; and third-party sub-advisory relationships. Revenues from fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance are included in the general account.

(2) Includes mortgage origination and spread lending revenues from our commercial mortgage origination and servicing business.

(3) Future revenues will be impacted by the level and diversification of our strategic investments, the commercial real estate market, and other domestic and international markets.

(4) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004, implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was \$15 million and \$17 million for the three months ended September 30, 2019 and 2018, respectively, and \$45 million and \$54 million for the nine months ended September 30, 2019 and 2018, respectively.

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$38 million. Asset management fees increased \$35 million driven by an increase in average assets under management as a result of fixed income market appreciation and flows. Other related revenues increased \$2 million primarily due to higher commercial mortgage loan originations, partially offset by lower gross performance-based incentive fees.

Expenses, as shown in the table above under “—Operating Results,” increased \$36 million, reflecting higher compensation and non-compensation expenses primarily driven by higher sales and costs supporting business growth.

Nine Month Comparison. Revenues increased \$192 million. Asset management fees increased \$88 million driven by an increase in average assets under management as a result of fixed income market appreciation and flows. Other related revenues increased \$79 million primarily due to higher gross performance-based incentive fees. These increases were partially offset by charges associated with a joint venture.

Expenses increased \$198 million, primarily reflecting higher compensation expenses attributable to growth in incentive fees and higher earnings, and costs for certain long-term employee compensation plans, as discussed above. Also contributing to the increase were higher non-compensation expenses including those supporting business growth initiatives.

Assets Under Management

The following table sets forth assets under management by asset class and source as of the dates indicated.

	September 30, 2019	December 31, 2018	September 30, 2018
	(in billions)		
Assets Under Management (at fair value):			
Institutional customers:			
Equity	\$ 58.9	\$ 54.7	\$ 64.0
Fixed income	438.0	395.1	398.3
Real estate	42.9	43.7	43.4
Institutional customers(1)	539.8	493.5	505.7
Retail customers:			
Equity	125.0	112.9	137.3
Fixed income	142.4	125.2	119.4
Real estate	1.9	2.0	1.6
Retail customers(2)	269.3	240.1	258.3
General account:			
Equity	5.7	5.1	5.6
Fixed income	467.0	420.8	403.1
Real estate	2.0	1.9	1.9
General account	474.7	427.8	410.6
Total assets under management	\$ 1,283.8	\$ 1,161.4	\$ 1,174.6
Assets under management within other operating segments(3)			
Total PFI assets under management	\$ 1,518.8	\$ 1,377.3	\$ 1,410.0

(1) Consists of third-party institutional assets and group insurance contracts.

(2) Consists of individual mutual funds and variable annuities and variable life insurance separate account assets; funds invested in proprietary mutual funds through our defined contribution plan products; and third-party sub-advisory relationships. Fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance are included in the general account.

(3) These amounts primarily include certain assets related to annuity and variable life products in our U.S. Individual Solutions division, retirement and group life products in our U.S. Workplace Solutions division and certain general account assets of our International Insurance division. These assets are not directly managed by PGIM, but rather are invested in non-proprietary funds or are managed by either the divisions themselves or our Chief Investment Officer Organization.

The following table sets forth the component changes in assets under management by asset source for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2019	2018	2019	2018	2019
(in billions)					
Institutional Customers:					
Beginning assets under management	\$ 534.9	\$ 490.8	\$ 493.5	\$ 489.5	\$ 505.7
Net additions (withdrawals), excluding money market activity:					
Third-party	(2.2)	9.3	(7.2)	14.6	(7.7)
Third-party via affiliates(1)	(0.4)	0.1	0.1	(0.3)	(0.1)
Total	(2.6)	9.4	(7.1)	14.3	(7.8)
Market appreciation (depreciation)(3)	10.0	4.9	50.9	(0.3)	40.9
Other increases (decreases)(2)	(2.5)	0.6	2.5	2.2	1.0
Ending assets under management	\$ 539.8	\$ 505.7	\$ 539.8	\$ 505.7	\$ 539.8
Retail Customers:					
Beginning assets under management	\$ 264.9	\$ 252.0	\$ 240.1	\$ 245.6	\$ 258.3
Net additions (withdrawals), excluding money market activity:					
Third-party	3.0	(0.6)	4.5	2.2	1.9
Third-party via affiliates(1)	(0.2)	(0.9)	(6.9)	(2.1)	(2.5)
Total	2.8	(1.5)	(2.4)	0.1	(0.6)
Market appreciation (depreciation)(3)	1.8	7.8	31.8	12.8	11.8
Other increases (decreases)(2)	(0.2)	0.0	(0.2)	(0.2)	(0.2)
Ending assets under management	\$ 269.3	\$ 258.3	\$ 269.3	\$ 258.3	\$ 269.3
General Account:					
Beginning assets under management	\$ 459.8	\$ 413.3	\$ 427.8	\$ 420.2	\$ 410.6
Net additions (withdrawals), excluding money market activity:					
Third-party	0.0	0.0	0.0	0.0	0.0
Affiliated	(0.4)	1.7	1.2	3.1	7.3
Total	(0.4)	1.7	1.2	3.1	7.3
Market appreciation (depreciation)(3)	10.6	(1.7)	39.0	(8.4)	43.2
Other increases (decreases)(2)	4.7	(2.7)	6.7	(4.3)	13.6
Ending assets under management	\$ 474.7	\$ 410.6	\$ 474.7	\$ 410.6	\$ 474.7
Total assets under management	\$ 1,283.8	\$ 1,174.6	\$ 1,283.8	\$ 1,174.6	\$ 1,283.8

(1) Represents assets that our PGIM segment manages for the benefit of other reporting segments within the Company. Additions and withdrawals of these assets are attributable to third-party product inflows and outflows in other reporting segments.

(2) Includes the effect of foreign exchange rate changes, net money market activity and the impact of acquired business. The impact from foreign currency fluctuations, which primarily impact the general account, resulted in a loss of \$0.5 billion and a loss of \$2.8 billion for the three months ended September 30, 2019 and 2018, respectively; a gain of \$0.2 billion and a loss of \$2.3 billion for the nine months ended September 30, 2019 and 2018, respectively; and a gain of \$3.7 billion for the twelve months ended September 30, 2019.

(3) Includes income reinvestment, where applicable.

Strategic Investments

The following table sets forth the strategic investments of the PGIM segment at carrying value (including the value of derivative instruments used to mitigate equity market and currency risk) by asset class and source as of the dates indicated.

	September 30, 2019	December 31, 2018
	(in millions)	
Co-Investments:		
Real estate	\$ 178	\$ 207
Fixed income	456	438
Seed Investments:		
Real estate	60	50
Public equity	744	738
Fixed income	320	272
Total	<u>\$ 1,758</u>	<u>\$ 1,705</u>

The increase of \$53 million in strategic investments was primarily driven by strong fixed income investment performance.

U.S. Financial Wellness Businesses - U.S. Workplace Solutions Division

Retirement

Operating Results

The following table sets forth the Retirement segment's operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Operating results:				
Revenues	\$ 2,261	\$ 4,203	\$ 8,486	\$ 9,280
Benefits and expenses	1,959	3,964	7,466	8,447
Adjusted operating income	302	239	1,020	833
Realized investment gains (losses), net, and related adjustments	269	(66)	412	(99)
Related charges	(10)	2	1	(14)
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	43	(66)	678	(574)
Change in experience-rated contractholder liabilities due to asset value changes	(112)	55	(722)	470
Income (loss) before income taxes and equity in earnings of operating joint ventures	<u>\$ 492</u>	<u>\$ 164</u>	<u>\$ 1,389</u>	<u>\$ 616</u>

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$63 million, primarily driven by higher net investment spread results and more favorable reserve experience. The increase in net investment spread results primarily reflected higher income on non-coupon investments. The higher contribution from reserve experience primarily reflected unseasonably higher mortality gains on a comparative basis within our pension risk transfer business.

Nine Month Comparison. Adjusted operating income increased \$187 million. Results for 2019 included a net benefit of \$154 million from our annual reviews and update of assumptions and other refinements primarily driven by a reduction in expected benefit payments, while results for 2018 included a net charge of \$68 million from these updates, primarily driven by updates to our assumptions for benefit payments. Excluding these impacts, adjusted operating income decreased \$35 million, primarily driven by higher expenses, less favorable reserve experience and lower net investment spread results. The increase in expenses was primarily driven by higher costs supporting business growth initiatives. The lower contribution from reserve experience primarily reflected lower mortality gains on a comparative basis within our pension risk transfer business. The decrease in net investment spread results included an impact from crediting rate increases on full service account values. The decrease was partially offset by higher income on non-coupon investments.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” decreased \$1,942 million. This decrease primarily reflected lower pension risk transfer premiums. This decrease in premiums resulted in a corresponding decrease in policyholders’ benefits, as discussed below. The decrease was partially offset by higher investment income, primarily reflecting income on non-coupon investments and higher asset balances.

Benefits and expenses, as shown in the table above under “—Operating Results,” decreased \$2,005 million. Policyholders’ benefits, including the change in policy reserves, decreased primarily related to the decrease in premiums discussed above, driven by a decrease in pension risk transfer premiums, as well as unseasonably higher mortality gains.

Nine Month Comparison. Revenues decreased \$794 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues decreased \$788 million. This decrease primarily reflected lower pension risk transfer premiums. This decrease in premiums resulted in a corresponding decrease in policyholders’ benefits, as discussed below. The decrease was partially offset by higher investment income primarily reflecting higher income on non-coupon investments and higher asset balances.

Benefits and expenses decreased \$981 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses decreased \$753 million. Policyholders’ benefits, including the change in policy reserves, decreased primarily related to the decrease in premiums discussed above, driven by lower comparative pension risk transfer premiums. The decrease was partially offset by an increase in interest credited to policyholders’ account balance, including the impact of higher crediting rates on experience-rated account balances and higher account values.

Account Values

Account values are a significant driver of our operating results, and are primarily driven by net additions (withdrawals) and the impact of market changes. The income we earn on most of our fee-based products varies with the level of fee-based account values, since many policy fees are determined by these values. The investment income and interest we credit to policyholders on our spread-based products varies with the level of general account values. To a lesser extent, changes in account values impact our pattern of amortization of DAC and VOBA and general and administrative expenses. The following table shows the changes in the account values and net additions (withdrawals) of Retirement segment products for the periods indicated. Net additions (withdrawals) are plan sales and participant deposits or additions, as applicable, minus plan and participant withdrawals and benefits. Account values include both internally- and externally-managed client balances as the total balances drive revenue for the Retirement segment. For more information on internally-managed balances, see “—PGIM.”

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2019	2018	2019	2018	2019
	(in millions)				
Full Service:					
Beginning total account value	\$ 262,133	\$ 240,922	\$ 231,669	\$ 234,616	\$ 251,272
Deposits and sales	7,458	8,843	28,072	26,477	34,711
Withdrawals and benefits	(10,758)	(5,864)	(27,122)	(20,488)	(33,063)
Change in market value, interest credited and interest income and other activity	1,113	7,371	27,327	10,667	7,026
Ending total account value	\$ 259,946	\$ 251,272	\$ 259,946	\$ 251,272	\$ 259,946
Institutional Investment Products:					
Beginning total account value	\$ 215,978	\$ 191,722	\$ 200,759	\$ 194,492	\$ 195,237
Additions(1)	5,235	6,318	22,526	12,467	31,369
Withdrawals and benefits	(4,626)	(3,345)	(12,436)	(12,085)	(15,760)
Change in market value, interest credited and interest income	2,406	1,146	7,876	2,130	9,049
Other(2)	(1,413)	(604)	(1,145)	(1,767)	(2,315)
Ending total account value	\$ 217,580	\$ 195,237	\$ 217,580	\$ 195,237	\$ 217,580

(1) Additions primarily include: group annuities calculated based on premiums received; longevity reinsurance contracts calculated as the present value of future projected benefits; and investment-only stable value contracts calculated as the fair value of customers’ funds held in a client-owned trust.

(2) “Other” activity includes the effect of foreign exchange rate changes associated with our British pounds sterling denominated longevity reinsurance business and changes in asset balances for externally-managed accounts. For the three months ended September 30, 2019 and 2018, “other” activity also includes \$1,418 million in receipts offset by \$1,024 million in payments and \$591 million in receipts offset by \$601 million in payments, respectively, and for the nine months ended September 30, 2019 and 2018, includes \$2,822 million in receipts offset by \$2,218 million in payments and \$2,822 million in receipts offset by \$2,789 million in payments, respectively, related to funding agreements backed by commercial paper which typically have maturities of less than 90 days.

The increase in full service account values for the three months, nine months and twelve months ended September 30, 2019 reflected the favorable changes in the market value of customer funds. Account values for the three months ended September 30, 2019 reflected net plan lapses, while account values for the nine and twelve months ended September 30, 2019 reflected positive net plan sales.

The increase in institutional investment products account values for the three months, nine months and twelve months ended September 30, 2019 primarily reflected net additions from pension risk transfer activity and the favorable changes in the market value of account assets.

Group Insurance

Operating Results

The following table sets forth the Group Insurance segment’s operating results and benefits and administrative operating expense ratios for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(\$ in millions)			
Operating results:				
Revenues	\$ 1,438	\$ 1,430	\$ 4,340	\$ 4,270
Benefits and expenses	1,348	1,371	4,116	4,074
Adjusted operating income	90	59	224	196
Realized investment gains (losses), net, and related adjustments	0	(3)	9	(12)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 90	\$ 56	\$ 233	\$ 184
Benefits ratio(1):				
Group life(2)	84.7%	87.3%	88.0%	87.3%
Group disability(2)	79.4%	78.9%	73.1%	73.9%
Total Group Insurance(2)	83.5%	85.7%	84.7%	84.7%
Administrative operating expense ratio(3):				
Group life	13.1%	11.5%	12.3%	11.9%
Group disability	22.0%	26.8%	24.3%	26.8%
Total Group Insurance	15.2%	14.5%	14.9%	14.8%

(1) Ratio of policyholder benefits to earned premiums plus policy charges and fee income.

(2) Benefits ratios for the nine months ended September 30, 2019 and 2018 reflect the impacts of our annual reviews and update of assumptions and other refinements. Excluding these impacts, the group life, group disability and total Group Insurance benefits ratios were 87.4%, 76.2% and 85.0% for the nine months ended September 30, 2019, respectively, and 87.7%, 76.5% and 85.5% for the nine months ended September 30, 2018, respectively.

(3) Ratio of general and administrative expenses (excluding commissions) to gross premiums plus policy charges and fee income.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$31 million, primarily reflecting more favorable underwriting results in our group life business and lower expenses. The underwriting results in our group life business were primarily driven by a favorable impact from improved claim experience on non-experience-rated contracts, net of reinsurance.

Nine Month Comparison. Adjusted operating income increased \$28 million, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for both 2019 and 2018 included a net benefit from this update of \$9 million and \$31 million, respectively. Excluding these items, adjusted operating income increased \$50 million, primarily driven by more favorable underwriting results in our group disability business, lower expenses driven by the absence of costs related to the termination of a third-party underwriting service provider contract in the prior year period, and higher net investment spread results driven by higher income on non-coupon investments. The more favorable underwriting results in our group disability business were driven by a favorable impact from claim experience on long-term disability products.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$8 million. The increase primarily reflected higher net investment income driven by higher income on non-coupon investments, with offsets in interest credited to policyholder account balances, as discussed below.

Benefits and expenses, as shown in the table above under “—Operating Results,” decreased \$23 million. The decrease primarily reflected lower policyholders’ benefits and changes in reserves in our group life business driven by claim experience, and lower general and administrative expenses, partially offset by higher interest credited to policyholder account balances, with offsets in net investment income as discussed above.

Nine Month Comparison. Revenues increased \$70 million. Excluding an unfavorable comparative impact of \$10 million resulting from our annual reviews and updates of assumptions and other refinements, as discussed above, revenues increased \$80 million. The increase primarily reflected higher premiums and policy charges and fee income driven by growth in our group disability business, and higher net investment income driven by higher income on non-coupon investments, with offsets in interest credited to policyholder account balances, as discussed below.

Benefits and expenses increased \$42 million. Excluding an unfavorable comparative impact of \$12 million resulting from our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$30 million. The increase primarily reflected higher policyholders’ benefits and changes in reserves in our group disability business driven by business growth, partially offset by favorable claim experience in our group life business. Benefits and expenses also reflected higher interest credited to policyholder account balances, with offsets in net investment income, as discussed above, and a decrease in general and administrative expenses driven by the absence of costs related to the termination of a third-party underwriting service provider contract in the prior year period.

Sales Results

The following table sets forth the Group Insurance segment’s annualized new business premiums, as defined under “—Segment Measures” above, for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Annualized new business premiums(1):				
Group life	\$ 42	\$ 63	\$ 233	\$ 352
Group disability	18	16	153	170
Total	\$ 60	\$ 79	\$ 386	\$ 522

(1) Amounts exclude new premiums resulting from rate changes on existing policies, from additional coverage under our Servicemembers’ Group Life Insurance contract and from excess premiums on group universal life insurance that build cash value but do not purchase face amounts.

Total annualized new business premiums for the three months ended September 30, 2019 decreased \$19 million compared to the prior year period, reflecting lower sales in our group life business. Total annualized new business premiums for the nine months ended September 30, 2019 decreased \$136 million compared to the prior year period, primarily driven by large life client sales in the prior year period.

U.S. Financial Wellness Businesses - U.S. Individual Solutions Division

Individual Annuities

Operating Results

The following table sets forth the Individual Annuities segment's operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Operating results:				
Revenues	\$ 1,251	\$ 1,224	\$ 3,774	\$ 3,742
Benefits and expenses	792	770	2,381	2,262
Adjusted operating income	459	454	1,393	1,480
Realized investment gains (losses), net, and related adjustments	(408)	126	(2,633)	654
Related charges	(84)	(162)	106	(383)
Market experience updates(1)	(120)	0	(130)	0
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ (153)	\$ 418	\$ (1,264)	\$ 1,751

(1) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. The Company had historically recognized these impacts in adjusted operating income. See Note 14 to our Unaudited Interim Consolidated Financial Statements for additional information.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$5 million. The increase was primarily due to an unfavorable impact of changes in the estimated profitability of the business in the prior period results. Beginning in the second quarter of 2019, this activity is excluded from adjusted operating income (see Note 14 to the Unaudited Interim Consolidated Financial Statements for further information). Also contributing to the increase was higher net investment income due to a higher level of invested assets. These increases were largely offset by lower fee income, net of distribution expenses and other associated costs, due to unfavorable impacts from our living benefit guarantees as a result of interest rate declines, certain products reaching contractual milestones for fee tier reduction, and lower average account values resulting from negative net flows, partially offset by market appreciation.

Nine Month Comparison. Adjusted operating income decreased \$87 million, including an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results from this annual review included a net charge of \$12 million and a net benefit of \$10 million in 2019 and 2018, respectively. Excluding these items, adjusted operating income decreased \$65 million primarily driven by lower net fee income, higher expenses and capital hedge costs, partially offset by higher net investment income, favorable changes in the estimated profitability of the business, and lower amortization costs and reserve provisions.

Fee income, net of distribution expenses and other associated costs, declined due to lower average account values resulting from negative net flows partially offset by market appreciation, unfavorable impacts from our living benefit guarantees as a result of interest rate declines, and certain products reaching contractual milestones for fee tier reduction. The increase in expenses was primarily driven by business growth. The higher capital hedge costs reflected the impacts of equity market performance. The increase in net investment income was driven by a higher level of invested assets. The favorable comparative impact of changes in the estimated profitability of the business was primarily driven by the unfavorable impact in the prior period results as discussed above. The decrease in amortization costs and reserve provisions was primarily driven by lower gross profits.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$27 million. The increase was primarily driven by higher net investment income due to a higher level of invested assets, as well as higher premiums mostly reflecting an increase in single premium immediate annuity sales, with offsets in policyholders’ benefits as discussed below. These increases were partially offset by lower policy charges and fee income due to unfavorable impacts from our living benefit guarantees as a result of interest rate declines, certain products reaching contractual milestones for fee tier reduction, and lower average account values resulting from negative net flows, partially offset by market appreciation.

Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$22 million primarily driven by policyholders’ benefits, including changes in reserves, due to higher reserve provisions resulting from an increase in single premium immediate annuity sales, with offsets in premiums, as discussed above.

Nine Month Comparison. Revenues increased \$32 million. Excluding the impact from our annual reviews and update of assumptions and other refinements, discussed above, revenues increased \$50 million. The increase was driven by higher premiums, mostly reflecting an increase in single premium immediate annuity sales, with offsets in policyholders’ benefits as discussed below, and higher net investment income reflecting a higher level of invested assets. These increases were partially offset by lower policy charges and fee income, as well as lower asset management and service fees and other income reflecting lower average account values resulting from negative net flows partially offset by market appreciation, unfavorable impacts from our living benefit guarantees as a result of interest rate declines, and certain products reaching contractual milestones for fee tier reduction.

Benefits and expenses increased \$119 million. Excluding the impact from our annual reviews and update of assumptions and other refinements, discussed above, benefits and expenses increased \$115 million primarily driven by policyholders’ benefits, including changes in reserves, due to higher reserve provisions resulting from an increase in single premium immediate annuity sales, with offsets in premiums, as discussed above.

Account Values

Account values are a significant driver of our operating results. Since most fees are determined by the level of separate account assets, fee income varies according to the level of account values. Additionally, our fee income generally drives other items such as the pattern of amortization of DAC and other costs. Account values are driven by net flows from new business sales, surrenders, withdrawals and benefit payments, policy charges and the impact of positive or negative market value changes. The annuity industry’s competitive and regulatory landscapes, which have been dynamic over the last few years, may impact our net flows, including new business sales. The following table sets forth account value information for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2019	2018	2019	2018	2019
	(in millions)				
Total Individual Annuities(1):					
Beginning total account value	\$ 165,313	\$ 163,645	\$ 151,080	\$ 168,626	\$ 165,962
Sales	2,657	2,241	7,639	6,032	9,877
Full surrenders and death benefits(2)	(2,568)	(2,296)	(6,905)	(6,901)	(8,962)
Sales, net of full surrenders and death benefits(2)	89	(55)	734	(869)	915
Partial withdrawals and other benefit payments(2)	(1,229)	(1,120)	(3,694)	(3,460)	(5,048)
Net flows	(1,140)	(1,175)	(2,960)	(4,329)	(4,133)
Change in market value, interest credited and other activity	1,448	4,431	19,310	4,471	6,498
Policy charges	(923)	(939)	(2,732)	(2,806)	(3,629)
Ending total account value	\$ 164,698	\$ 165,962	\$ 164,698	\$ 165,962	\$ 164,698

(1) Includes variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment. Variable annuity account values were \$160.1 billion and \$162.4 billion as of September 30, 2019 and 2018, respectively. Fixed annuity account values were \$4.6 billion and \$3.6 billion as of September 30, 2019 and 2018, respectively.

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

The decrease in account values for the twelve months ended September 30, 2019 was largely driven by partial withdrawals and other benefit payments on contracts as well as policy charges on contractholder accounts. These negative impacts were partially offset by favorable changes in the market value of contractholder funds.

Gross sales for both the three and nine months ended September 30, 2019 increased in comparison to the prior year periods, primarily attributable to certain distribution, product design and pricing actions implemented to enhance product competitiveness. The introduction of a new fixed index annuity product in 2018 also contributed to the increase in gross sales.

Variable Annuity Risks and Risk Mitigants

The following is a summary of: (i) certain risks associated with Individual Annuities' products; (ii) certain 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, 2018.

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 returns 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 fluctuations in capital markets primarily through a combination of Product Design Features, an Asset Liability Management ("ALM") Strategy, a Capital Hedge Program and External Reinsurance.

Product Design Features

A portion of the variable annuity contracts that we offer include an automatic rebalancing feature, also referred to as 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 automatic rebalancing feature is to reduce our exposure to equity market risk and market volatility. Other product design features we utilize include, among others, asset allocation restrictions, minimum issuance age requirements and certain limitations on the amount of contractholder deposits, as well as a required minimum allocation to our general account for certain of our products. We continue to introduce products that diversify our risk profile and have incorporated provisions in product design allowing frequent revisions of key pricing elements for certain of our products. In addition, there is diversity in our fee arrangements, as certain fees are primarily based on the benefit guarantee amount, the contractholder account value and/or premiums, which helps preserve certain revenue streams when market fluctuations cause account values to decline.

ALM Strategy (including fixed income instruments and derivatives)

Our 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 we manage with this ALM strategy consists of expected living benefit claims under less severe market conditions, which are managed using a traditional ALM strategy through the accumulation of fixed income and derivative instruments, and potential living benefit claims resulting from more severe market conditions, which are hedged using derivative instruments. For the portion of our ALM strategy executed with derivatives, we enter 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 we seek to defray excludes certain items that are included within the U.S. GAAP liability, such as non-performance risk ("NPR") (in order to maximize protection irrespective of the possibility of our own default), as well as risk margins (required by U.S. GAAP but different from our best estimate) and valuation methodology differences. The following table provides a reconciliation between the liability reported under U.S. GAAP and the economic liability we manage through our ALM strategy as of the dates indicated:

	September 30, 2019	December 31, 2018
	(in millions)	
U.S. GAAP liability (including NPR)	\$ 16,285	\$ 8,860
NPR adjustment	4,789	4,619
Subtotal	21,074	13,479
Adjustments including risk margins and valuation methodology differences	(5,959)	(4,084)
Economic liability managed through the ALM strategy	\$ 15,115	\$ 9,395

As of September 30, 2019, our fixed income instruments and derivative assets exceed the economic liability within the entities in which the risks reside.

The following table illustrates the net impact to our Unaudited Interim Consolidated Statements of Operations from changes in the U.S. GAAP embedded derivative liability and hedge positions under the ALM strategy, and the related amortization of DAC and other costs, that are excluded from adjusted operating income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)(1)			
Excluding impact of assumption updates and other refinements:				
Net hedging impact(2)	\$ (3)	\$ (39)	\$ (93)	\$ (178)
Change in portions of U.S. GAAP liability, before NPR(3)	(1,422)	621	(1,933)	1,118
Change in the NPR adjustment	1,197	(285)	363	(154)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions	(228)	297	(1,663)	786
Related benefit (charge) to amortization of DAC and other costs	(18)	(67)	231	(235)
Net impact of assumption updates and other refinements	0	0	17	(173)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs	\$ (246)	\$ 230	\$ (1,415)	\$ 378

(1) Positive amount represents income; negative amount represents a loss.

(2) Net hedging impact represents the difference between the change in fair value of the risk we seek to hedge using derivatives and the change in fair value of the derivatives utilized with respect to that risk.

(3) Represents risk margins and valuation methodology differences between the economic liability managed by the ALM strategy and the U.S. GAAP liability.

For the three and nine months ended September 30, 2019, the net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs, was a net charge of \$246 million and \$1,415 million, respectively. The net impact from changes in the U.S. GAAP embedded derivative and hedge positions resulted in a net charge of \$228 million in the third quarter of 2019 primarily reflecting declining interest rates partially offset by widening of credit spreads used in measuring our living benefit contracts, and a net charge of \$1,663 million in the first nine months of 2019 primarily reflecting declining interest rates and, to a lesser extent, tightening of credit spreads, partially offset by favorable equity markets. The results for the nine months ended September 30, 2019 had partial offsets in the \$231 million of related benefits to amortization of DAC and other costs.

For the three months ended September 30, 2018, the net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs, was a benefit of \$230 million. The net impact from changes in the U.S. GAAP embedded derivative and hedge positions resulted in a net benefit of \$297 million primarily reflecting the impact of rising interest rates and favorable equity markets. Partial offsets are included in the \$67 million of related charges to amortization of DAC and other costs. For the nine months ended September 30, 2018, the net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impacts of NPR, DAC and other costs, was a benefit of \$378 million. The net impact from changes in the U.S. GAAP embedded derivative and hedge positions resulted in a net benefit of \$786 million primarily reflecting the impacts of credit spread widening coupled with rising interest rates and favorable equity markets. Partial offsets are included in the \$235 million of related charges to amortization of DAC and other costs. The net charge of \$173 million resulted from our annual reviews and update of assumptions and other refinements, including updates to expected withdrawal rates, as well as economic assumptions.

For information regarding the Risk Appetite Framework we use to evaluate and support the risks of the ALM strategy, see “—Liquidity and Capital Resources—Capital.”

Capital Hedge Program

We employ a capital hedge program within the Individual Annuities segment to hedge equity market impacts. The program is intended to protect a portion of the overall capital position of the variable annuities business against its exposure to the equity markets. The capital hedge program is conducted using equity derivatives which include equity call and put options, total return swaps and futures contracts. The changes in value of these derivatives are recognized in adjusted operating income over the expected duration of the capital hedge program.

External Reinsurance

As of September 30, 2019, living benefit guarantees associated with \$3.1 billion of Highest Daily Lifetime Income (“HDI”) v.3.0 account values are reinsured to Union Hamilton Reinsurance Ltd., an external counterparty, pursuant to a quota share agreement that covered approximately 50% of new business between April 1, 2015 and December 31, 2016. HDI v.3.0 is the current version of our “highest daily” living benefits guarantee that is available with our Prudential Premier® Retirement Variable Annuity. New sales of HDI v.3.0 subsequent to December 31, 2016 are not covered by this external reinsurance agreement.

Product Specific Risks and Risk Mitigants

As noted above, the risks associated with our products are mitigated through product design features, including automatic rebalancing, as well as through our ALM strategy and external reinsurance. The following table sets forth the risk management profile of our living benefit guarantees and guaranteed minimum death benefit (“GMDB”) features as of the periods indicated.

	September 30, 2019		December 31, 2018		September 30, 2018	
	Account Value	% of Total	Account Value	% of Total	Account Value	% of Total
	(\$ in millions)					
Living benefit/GMDB features(1):						
Both ALM strategy and automatic rebalancing(2)	\$ 108,457	68%	\$ 101,496	69%	\$ 112,377	69%
ALM strategy only	7,586	5%	7,520	5%	8,607	5%
Automatic rebalancing only	747	1%	804	1%	880	1%
External reinsurance(3)	3,055	2%	2,873	2%	3,184	2%
Prudential Defined Income Variable Annuity	15,624	9%	11,237	7%	10,813	6%
Other products	2,396	1%	2,306	2%	2,661	2%
Total living benefit/GMDB features	\$ 137,865		\$ 126,236		\$ 138,522	
GMDB features and other(4)	22,265	14%	21,103	14%	23,847	15%
Total variable annuity account value	\$ 160,130		\$ 147,339		\$ 162,369	

(1) All contracts with living benefit guarantees also contain GMDB features, which cover the same insured contract.

(2) Contracts with living benefits that are included in the ALM strategy and have an automatic rebalancing feature.

(3) Represents contracts subject to a reinsurance transaction with an external counterparty that covered certain new HDI business from April 1, 2015 through December 31, 2016. These contracts with living benefits also have an automatic rebalancing feature.

(4) Includes contracts that have a GMDB feature and do not have an automatic rebalancing feature.

Individual Life

Operating Results

The following table sets forth the Individual Life segment’s operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in millions)				
Operating results:				
Revenues	\$ 1,529	\$ 1,454	\$ 4,519	\$ 4,330
Benefits and expenses	1,470	1,284	4,490	4,081
Adjusted operating income	59	170	29	249
Realized investment gains (losses), net, and related adjustments	168	(91)	445	(363)
Related charges	(29)	58	(197)	151
Market experience updates(1)	(186)	0	(346)	0
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 12	\$ 137	\$ (69)	\$ 37

(1) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. The Company had historically recognized these impacts in adjusted operating income. See Note 14 to our Unaudited Interim Consolidated Financial Statements for additional information.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased \$111 million, primarily reflecting lower underwriting results, driven by an unseasonably unfavorable impact from mortality experience, net of reinsurance, and the unfavorable ongoing impact of our second quarter 2019 assumption update and other refinements on current quarter results, and higher expenses. These decreases were partially offset by a higher contribution from net investment spread results driven by higher income on non-coupon investments.

Nine Month Comparison. Adjusted operating income decreased \$220 million, primarily reflecting an unfavorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2019 included a \$208 million net charge from this annual review, mainly driven by unfavorable impacts related to mortality rate assumptions. Results for 2018 included a \$65 million net charge from this annual review, mainly driven by unfavorable impacts related to lapse and mortality rate assumptions. Excluding this item, adjusted operating income decreased \$77 million, primarily reflecting lower underwriting results, driven by an unfavorable impact from mortality experience, net of reinsurance, and the unfavorable ongoing impact of our annual reviews and update of assumptions and other refinements, and higher expenses. These decreases were partially offset by a higher contribution from net investment spread results driven by higher income on non-coupon investments, and a favorable net impact in the first quarter of 2019 from changes in our estimated profitability of the business driven by equity market performance on policyholder accounts. Beginning in the second quarter of 2019, this activity is excluded from adjusted operating income (see Note 14 to the Unaudited Interim Consolidated Financial Statements for further information).

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$75 million. This increase was primarily driven by an increase in net investment income from higher average invested assets resulting from continued business growth, higher investment income from unaffiliated reserve financing activity that resulted in a corresponding increase in interest expense, as discussed below, and higher income on non-coupon investments.

Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$186 million. This increase was driven by higher policyholders’ benefits and interest credited to account balances attributable to continued business growth, an unseasonably unfavorable impact from mortality experience, net of reinsurance, and the ongoing impact of the assumption update and other refinements, as discussed above. Also contributing to the increase was higher reserve financing costs, as discussed above.

Nine Month Comparison. Revenues increased \$189 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased \$226 million. This increase was primarily driven by an increase in net investment income from higher average invested assets resulting from continued business growth, higher investment income from unaffiliated reserve financing activity that resulted in a corresponding increase in interest expense, as discussed below, and higher income on non-coupon investments.

Benefits and expenses increased \$409 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$303 million. This increase was primarily driven by higher policyholders' benefits and interest credited to account balances attributable to continued business growth, an unfavorable impact from mortality experience, net of reinsurance, and the ongoing impact of the assumption update and other refinements, as discussed above. Also contributing to the increase was higher reserve financing costs, as discussed above.

Sales Results

The following table sets forth individual life insurance annualized new business premiums, as defined under “—Results of Operations—Segment Measures” above, by distribution channel and product, for the periods indicated.

	Three Months Ended September 30, 2019			Three Months Ended September 30, 2018		
	Prudential Advisors	Third-Party	Total	Prudential Advisors	Third-Party	Total
	(in millions)					
Term Life	\$ 7	\$ 42	\$ 49	\$ 7	\$ 48	\$ 55
Guaranteed Universal Life(1)	2	22	24	2	21	23
Other Universal Life(1)	9	26	35	12	32	44
Variable Life	20	47	67	14	27	41
Total	\$ 38	\$ 137	\$ 175	\$ 35	\$ 128	\$ 163

	Nine Months Ended September 30, 2019			Nine Months Ended September 30, 2018		
	Prudential Advisors	Third-Party	Total	Prudential Advisors	Third-Party	Total
	(in millions)					
Term Life	\$ 21	\$ 132	\$ 153	\$ 21	\$ 137	\$ 158
Guaranteed Universal Life(1)	6	63	69	7	61	68
Other Universal Life(1)	29	84	113	32	67	99
Variable Life	55	129	184	38	67	105
Total	\$ 111	\$ 408	\$ 519	\$ 98	\$ 332	\$ 430

(1) Single pay life premiums and excess (unscheduled) premiums are included in annualized new business premiums based on a 10% credit and represented approximately 5% and 8% of Guaranteed Universal Life and 0% and 0% of Other Universal Life annualized new business premiums for the three months ended September 30, 2019 and 2018, respectively, and approximately 6% and 12% of Guaranteed Universal Life and 0% and 0% of Other Universal Life annualized new business premiums for the nine months ended September 30, 2019 and 2018, respectively.

Total annualized new business premiums for the third quarter of 2019 increased \$12 million compared to the prior year period, primarily driven by higher sales of variable life insurance products as a result of product design and pricing actions implemented in September 2018, partially offset by lower sales of other universal life, as a result of large case activity in the prior year period, and lower sales of term life products. Total annualized new business premiums for the first nine months of 2019 increased \$89 million compared to the prior year period, primarily driven by higher sales of variable life insurance products, as discussed above, and higher sales of other universal life products as a result of large case activity in the second quarter of 2019, partially offset by lower sales of term life products.

International Insurance Division

International Insurance

Business Update

In August 2019, our joint venture in Chile, Administradora de Fondos de Pensiones Habitat S.A. (“AFP Habitat”), entered into a definitive agreement to acquire Administradora de Fondos de Pensiones Colfondos S.A. (“AFP Colfondos”), a leading provider of retirement services in Colombia. The transaction, which is subject to customary closing conditions and regulatory approvals, is expected to close in the fourth quarter of 2019.

Operating Results

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed in “—Results of Operations—Impact of Foreign Currency Exchange Rates” above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations, excluding the effect of foreign currency fluctuations, were derived by translating foreign currencies to USD at uniform exchange rates for all periods presented, including for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 105 yen per USD and Korean won at a rate of 1110 won per USD, both of which were determined in connection with the foreign currency income hedging program discussed in “—Results of Operations—Impact of Foreign Currency Exchange Rates” above. In addition, for constant dollar information discussed below, activity denominated in USD is generally reported based on the amounts as transacted in USD. Annualized new business premiums presented on a constant exchange rate basis in the “Sales Results” section below reflect translation based on these same uniform exchange rates.

The following table sets forth the International Insurance segment’s operating results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Operating results:				
Revenues:				
Life Planner operations	\$ 2,891	\$ 2,696	\$ 8,918	\$ 8,461
Gibraltar Life and Other operations	2,880	2,794	8,506	8,357
Total revenues	5,771	5,490	17,424	16,818
Benefits and expenses:				
Life Planner operations	2,524	2,247	7,632	7,220
Gibraltar Life and Other operations	2,456	2,353	7,230	7,068
Total benefits and expenses	4,980	4,600	14,862	14,288
Adjusted operating income:				
Life Planner operations	367	449	1,286	1,241
Gibraltar Life and Other operations	424	441	1,276	1,289
Total adjusted operating income	791	890	2,562	2,530
Realized investment gains (losses), net, and related adjustments	421	188	1,212	238
Related charges	(4)	4	(7)	5
Market experience updates(1)	(1)	0	(39)	0
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	48	76	154	(12)
Change in experience-rated contractholder liabilities due to asset value changes	(48)	(76)	(154)	12
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(28)	(19)	(86)	(52)
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 1,179	\$ 1,063	\$ 3,642	\$ 2,721

(1) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. The Company had historically recognized these impacts in adjusted operating income. See Note 14 to our Unaudited Interim Consolidated Financial Statements for additional information.

Adjusted Operating Income

Three Month Comparison. Adjusted operating income from our Life Planner operations decreased \$82 million, including a net favorable impact of \$7 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding this item, adjusted operating income decreased \$89 million, primarily reflecting higher expenses, driven by updates to legal reserves, as well as higher costs including those related to business growth and business initiatives. The decrease was partially offset by the growth of business in force in our Japan and Brazil operations and higher net investment results driven by higher non-coupon investments.

Adjusted operating income from our Gibraltar Life and Other operations decreased \$17 million, including a net favorable impact of \$4 million from currency fluctuations, inclusive of the currency hedging program discussed above. Excluding this item, adjusted operating income from our Gibraltar Life and Other operations decreased \$21 million, primarily reflecting higher expenses, including costs associated with business initiatives, partially offset by the growth of business in force and a favorable impact from our joint venture investments.

Nine Month Comparison. Adjusted operating income from our Life Planner operations increased \$45 million, including a net favorable impact of \$14 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a \$1 million net benefit in 2019 compared to a \$49 million net charge in 2018. The net charge in 2018 was primarily driven by the impact from unfavorable economic assumption updates driven by a lower long-term interest rate assumption in Japan.

Excluding these items, adjusted operating income decreased \$19 million, primarily reflecting higher expenses driven by updates to legal reserves, as well as higher costs including those related to business growth and business initiatives. The decrease was partially offset by the growth of business in force in our Japan and Brazil operations, and higher underwriting results driven by a favorable impact from mortality experience and policyholders' behavior. The decrease was also partially offset by a favorable net impact in the first quarter of 2019 from changes in our profitability of the business driven by equity market performance on policyholder accounts. Beginning in the second quarter of 2019, this activity is excluded from adjusted operating income (see Note 14 to the Unaudited Interim Consolidated Financial Statements for further information).

Adjusted operating income from our Gibraltar Life and Other operations decreased \$13 million, including a net favorable impact of \$13 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods also include the impact of our annual reviews and update of assumptions and other refinements, which resulted in a \$7 million net benefit in 2019 compared to a \$32 million net charge in 2018. The net benefit in 2019 reflected a net positive impact primarily related to updates to lapse assumptions. The net charge in 2018 was primarily driven by the impact from unfavorable economic assumption updates driven by a lower long-term interest rate assumption in Japan, as well as other refinements.

Excluding these items, adjusted operating income from our Gibraltar Life and Other operations decreased \$65 million, primarily reflecting higher expenses, including costs associated with business initiatives. Also contributing to the decrease were lower underwriting results driven by an unfavorable impact from mortality experience and policyholders' behavior. These decreases were partially offset by growth of business in force, as well as higher net investment results driven by higher average invested assets resulting from business growth.

Revenues, Benefits and Expenses

Three Month Comparison. Revenues from our Life Planner operations, as shown in the table above under “—Operating Results,” increased \$195 million, including a net favorable impact of \$27 million from currency fluctuations. Excluding this item, revenues increased \$168 million, primarily driven by higher premiums attributable to the growth of business in force and higher net investment results driven by higher non-coupon investments.

Benefits and expenses of our Life Planner operations, as shown in the table above under “—Operating Results,” increased \$277 million, including a net unfavorable impact of \$20 million from currency fluctuations. Excluding this item, benefits and expenses increased \$257 million, primarily reflecting higher policyholders' benefits, including changes in reserves, driven by business growth, and higher expenses driven by updates to legal reserves, as well as higher costs including those related to business growth and business initiatives.

Revenues from our Gibraltar Life and Other operations, as shown in the table above under “—Operating Results,” increased \$86 million, including a net favorable impact of \$32 million from currency fluctuations. Excluding this item, revenues increased \$54 million, primarily reflecting higher net investment income driven by higher non-coupon investments and higher average invested assets resulting from business growth. Also contributing to the increase were higher other income driven by a favorable impact from our joint venture investments.

Benefits and expenses of our Gibraltar Life and Other operations, as shown in the table above under “—Operating Results,” increased \$103 million, including a net unfavorable impact of \$28 million from currency fluctuations. Excluding this item, benefits and expenses increased \$75 million, primarily driven by higher policyholders’ benefits, including changes in reserves, driven by business growth, and higher expenses, including costs associated with business initiatives.

Nine Month Comparison. Revenues from our Life Planner operations increased \$457 million, including a net unfavorable impact of \$110 million from currency fluctuations and a net charge of \$16 million from our annual reviews and update of assumptions and other refinements. Excluding these items, revenues increased \$583 million, primarily driven by higher premiums related to the growth of business in force.

Benefits and expenses of our Life Planner operations increased \$412 million, including a net favorable impact of \$124 million from currency fluctuations and a net benefit of \$66 million from our annual review and update of assumptions and other refinements. Excluding these items, benefits and expenses increased \$602 million, primarily reflecting higher policyholders’ benefits, including changes in reserves, driven by business growth, and higher expenses driven by updates to legal reserves, as well as higher costs including those related to business growth and business initiatives.

Revenues from our Gibraltar Life and Other operations increased \$149 million, including a net unfavorable impact of \$2 million from currency fluctuations. Excluding this item, revenues increased \$151 million, primarily reflecting higher net investment income driven by higher average invested assets resulting from business growth, and higher other income driven by a favorable impact from our joint venture investments.

Benefits and expenses of our Gibraltar Life and Other operations increased \$162 million, including a net favorable impact of \$15 million from currency fluctuations and a net benefit of \$39 million from our annual reviews and update of assumptions and other refinements. Excluding these items, benefits and expenses increased \$216 million, primarily driven by an increase in policyholders’ benefits, including changes in reserves, driven by business growth, and higher expenses, including costs associated with business initiatives.

Sales Results

The following table sets forth annualized new business premiums, as defined under “—Results of Operations—Segment Measures” above, on an actual and constant exchange rate basis for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in millions)				
Annualized new business premiums:				
On an actual exchange rate basis:				
Life Planner operations	\$ 317	\$ 294	\$ 1,023	\$ 941
Gibraltar Life	312	351	931	1,157
Total	<u>\$ 629</u>	<u>\$ 645</u>	<u>\$ 1,954</u>	<u>\$ 2,098</u>
On a constant exchange rate basis:				
Life Planner operations	\$ 323	\$ 300	\$ 1,041	\$ 939
Gibraltar Life	314	353	936	1,162
Total	<u>\$ 637</u>	<u>\$ 653</u>	<u>\$ 1,977</u>	<u>\$ 2,101</u>

The amount of annualized new business premiums and the sales mix in terms of types and currency denomination of products for any given period can be significantly impacted by several factors, including but not limited to: the addition of new products, discontinuation of existing products, changes in credited interest rates for certain products and other product modifications, changes in premium rates, changes in interest rates or fluctuations in currency markets, changes in tax laws, changes in life insurance regulations or changes in the competitive environment. Sales volume may increase or decrease prior to certain of these changes becoming effective, and then fluctuate in the other direction following such changes.

Our diverse product portfolio in Japan, in terms of currency mix and premium payment structure, allows us to adapt to changing market and competitive dynamics, including the extremely low interest rate environment. We regularly examine our product offerings and their related profitability and, as a result, we have repriced or discontinued sales of certain products that do not meet our profit expectations. The impact of these actions, coupled with the introduction of certain new products, has generally resulted in an increase in sales of products denominated in USD relative to products denominated in other currencies.

The table below presents annualized new business premiums on a constant exchange rate basis, by product and distribution channel, for the periods indicated.

	Three Months Ended September 30, 2019					Three Months Ended September 30, 2018				
	Life	Accident & Health	Retirement(1)	Annuity	Total	Life	Accident & Health	Retirement(1)	Annuity	Total
	(in millions)									
Life Planner	\$ 173	\$ 25	\$ 102	\$ 23	\$ 323	\$ 169	\$ 30	\$ 78	\$ 23	\$ 300
Gibraltar Life:										
Life Consultants	\$ 95	\$ 10	\$ 23	\$ 24	\$ 152	\$ 82	\$ 12	\$ 26	\$ 60	\$ 180
Banks(2)	107	0	9	3	119	107	1	7	8	123
Independent Agency	18	1	22	2	43	27	1	14	8	50
Subtotal	220	11	54	29	314	216	14	47	76	353
Total	\$ 393	\$ 36	\$ 156	\$ 52	\$ 637	\$ 385	\$ 44	\$ 125	\$ 99	\$ 653

(1) Includes retirement income, endowment and savings variable universal life.

(2) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 2% and 68%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended September 30, 2019, and 0% and 71%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended September 30, 2018.

Three Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased \$23 million, primarily reflecting higher sales in our Brazil, Taiwan and Korea operations driven by growth in Life Planner headcount.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life and Other operations decreased \$39 million. Life Consultants sales decreased \$28 million, primarily reflecting lower sales of USD-denominated fixed annuity products driven by declines in crediting rates and prioritization of our strategy to focus on recurring pay protection products. Bank channel sales decreased \$4 million, primarily from lower sales of USD-denominated products due to increased competition. Independent Agency sales decreased \$7 million, primarily driven by the suspension of corporate term products in the first quarter of 2019 (see “Overview—Regulatory Developments—Japan Corporate Product Tax Rules”) and declines in crediting rates for fixed annuity products.

The table below presents annualized new business premiums on a constant exchange rate basis, by product and distribution channel, for the periods indicated.

	Nine Months Ended September 30, 2019					Nine Months Ended September 30, 2018				
	Life	Accident & Health	Retirement(1)	Annuity	Total	Life	Accident & Health	Retirement(1)	Annuity	Total
	(in millions)									
Life Planner	\$ 576	\$ 87	\$ 314	\$ 64	\$ 1,041	\$ 517	\$ 87	\$ 264	\$ 71	\$ 939
Gibraltar Life:										
Life Consultants	\$ 266	\$ 31	\$ 64	\$ 125	\$ 486	\$ 232	\$ 35	\$ 79	\$ 266	\$ 612
Banks(2)	274	0	27	11	312	331	1	21	32	385
Independent Agency	68	7	49	14	138	85	9	48	23	165
Subtotal	608	38	140	150	936	648	45	148	321	1,162
Total	\$ 1,184	\$ 125	\$ 454	\$ 214	\$ 1,977	\$ 1,165	\$ 132	\$ 412	\$ 392	\$ 2,101

(1) Includes retirement income, endowment and savings variable universal life.

(2) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 1% and 67%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the nine months ended September 30, 2019, and 0% and 72%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the nine months ended September 30, 2018.

Nine Month Comparison. Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased \$102 million driven by growth in Life Planner headcount, as well as higher average premium sizes in our Japan, Korea and Brazil operations.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life and Other operations decreased \$226 million. Life Consultants sales decreased \$126 million, primarily reflecting lower sales of USD-denominated fixed annuity products driven by declines in crediting rates and prioritization of our strategy to focus on recurring pay protection products. Bank channel sales decreased \$73 million, primarily from lower sales of USD-denominated products due to increased competition. Independent Agency sales decreased \$27 million, primarily driven by the suspension of corporate term products in the first quarter of 2019 (see “Overview—Regulatory Developments—Japan Corporate Product Tax Rules”) and declines in crediting rates for fixed annuity products.

Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments, and Divested and Run-off Businesses other than those that qualify for “discontinued operations” accounting treatment under U.S. GAAP.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Operating results:				
Capital debt interest expense	\$ (189)	\$ (178)	\$ (588)	\$ (531)
Investment income, net of operating debt interest expense	48	7	134	43
Pension and employee benefits	56	59	116	155
Other corporate activities(1)	(196)	(262)	(690)	(621)
Adjusted operating income	(281)	(374)	(1,028)	(954)
Realized investment gains (losses), net, and related adjustments	(68)	119	(275)	347
Related charges	35	4	(52)	8
Market experience updates(2)	(7)	0	(7)	0
Divested and Run-off Businesses	155	12	441	(1,586)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	1	(2)	(14)	1
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ (165)	\$ (241)	\$ (935)	\$ (2,184)

(1) Includes consolidating adjustments.

(2) Represents the immediate impacts in current period results from changes in current market conditions on estimates of profitability, which are excluded from adjusted operating income beginning with the second quarter of 2019. The Company had historically recognized these impacts in adjusted operating income. See Note 14 to our Unaudited Interim Consolidated Financial Statements for additional information.

Three Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased \$93 million. Net charges from other corporate activities decreased \$66 million, primarily reflecting lower costs for long-term and deferred employee compensation plans tied to Company stock and equity market performance, and lower enhanced supervision costs, partially offset by increases in other corporate costs related to corporate initiatives. Beginning in the fourth quarter of 2019, the Company has implemented certain changes that are expected to reduce market-based earnings volatility resulting from the long-term and deferred employee compensation plans. Results for investment income, net of operating debt interest expense, increased \$41 million, primarily due to an increase in net investment income driven by higher average invested assets. Capital debt interest expense increased \$11 million, reflecting higher average debt balances.

Nine Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased \$74 million. Net charges from other corporate activities increased \$69 million, primarily reflecting higher costs for long-term and deferred employee compensation plans tied to Company stock and equity market performance as well as increases in other corporate costs related to corporate initiatives, partially offset by lower enhanced supervision costs. Capital debt interest expense increased \$57 million, reflecting higher average debt balances. Results from pension and employee benefits were less favorable by \$39 million, primarily reflecting lower income from our qualified pension plan, due to higher interest costs on plan obligations driven by the increase in interest rates in 2018. Results for investment income, net of operating debt interest expense, increased \$91 million, primarily due to higher income on highly liquid assets and an increase in net investment income driven by higher average invested assets.

Divested and Run-off Businesses

Divested and Run-off Businesses Included in Corporate and Other

Income from our Divested and Run-off Businesses includes results from several businesses that have been or will be sold or exited, including businesses that have been placed in wind down status that do not qualify for “discontinued operations” accounting treatment under U.S. GAAP. The results of these Divested and Run-off Businesses are reflected in our Corporate and Other operations, but are excluded from adjusted operating income. A summary of the results of the Divested and Run-off Businesses reflected in our Corporate and Other operations is as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
Long-Term Care	\$ 147	\$ 14	\$ 456	\$ (1,484)
Other	8	(2)	(15)	(102)
Total Divested and Run-off Businesses income (loss) excluded from adjusted operating income	<u>\$ 155</u>	<u>\$ 12</u>	<u>\$ 441</u>	<u>\$ (1,586)</u>

Long-Term Care. Results for the third quarter of 2019 increased compared to the prior year period, primarily reflecting net realized investment gains in the current period compared to net realized investment losses in the prior year period, driven by the favorable comparative change in the market value of derivatives used for duration management, partially offset by the less favorable comparative change in the market value of investments in equity securities. Results for the first nine months of 2019 increased compared to the prior year period, primarily reflecting a favorable comparative net impact from our annual reviews and update of assumptions and other refinements. Results for 2019 included a \$9 million net charge from these updates. Results for 2018 included a \$1,458 million net charge from these updates, including the removal of our assumption of expected future morbidity improvement, reflecting unfavorable morbidity experience relative to prior expectations. Excluding these items, results for the first nine months of 2019 increased compared to the prior year period, reflecting net realized investment gains in the current period compared to net realized investment losses in the prior year period, driven by the favorable comparative change in the market value of derivatives used for duration management and the more favorable comparative change in the market value of investments in equity securities.

Other. Results for the first nine months of 2019 reflect less unfavorable results compared to the prior year period primarily reflecting lower comparative losses in the current period related to the anticipated sale of our Pramerica of Italy subsidiary and the exit of our PGIM Brazil operations in the second quarter of 2018. In August 2019, we entered into an agreement to sell our Pramerica of Italy subsidiary, subject to regulatory approvals and customary closing conditions.

Closed Block Division

The Closed Block division includes certain in-force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies (collectively the “Closed Block”), as well as certain related assets and liabilities. We no longer offer these traditional domestic participating policies. See Note 8 to the Unaudited Interim Consolidated Financial Statements for additional details.

Each year, the Board of Directors of The Prudential Insurance Company of America (“PICA”) determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. Although Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block division will include any change in our policyholder dividend obligation that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition to the actual policyholder dividends declared by the Board of Directors of PICA.

As of September 30, 2019, the excess of actual cumulative earnings over the expected cumulative earnings was \$2,586 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block has been reflected as a policyholder dividend obligation of \$3,977 million at September 30, 2019, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCL.

Operating Results

The following table sets forth the Closed Block division’s results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in millions)			
U.S. GAAP results:				
Revenues	\$ 1,482	\$ 1,249	\$ 4,157	\$ 3,800
Benefits and expenses	1,437	1,231	4,152	3,822
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 45	\$ 18	\$ 5	\$ (22)

Income (loss) Before Income Taxes and Equity in Earnings of Operating Joint Ventures

Three Month Comparison. Income (loss) before income taxes and equity in earnings of operating joint ventures increased \$27 million. Results for the third quarter of 2019 reflected an increase in net realized investment gains and related activity primarily driven by gains from sales of fixed maturities and favorable changes in the value of derivatives used in risk management activities, partially offset by unfavorable changes in the value of equity securities. Net investment income increased primarily driven by higher prepayment fee income. As a result of the above and other variances, a \$227 million increase in the policyholder dividend obligation was recorded in the third quarter of 2019, compared to a \$9 million reduction in the third quarter of 2018. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block division, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation. For a discussion of Closed Block division realized investment gains (losses), net, see “—General Account Investments.”

Nine Month Comparison. Income (loss) before income taxes and equity in earnings of operating joint ventures increased \$27 million. Results for the first nine months of 2019 reflected an increase in net realized investment gains and related activity primarily driven by gains from sales of fixed maturities, favorable changes in the value of derivatives used in risk management activities and favorable changes in the value of equity securities. Net insurance activity results decreased primarily due to a decrease in premiums as a result of runoff of policies in force and higher benefit payments. Net investment income decreased primarily due to lower income on coupon and non-coupon investments and prepayment fee income. As a result of the above and other variances, a \$334 million increase in the policyholder dividend obligation was recorded in the first nine months 2019, compared to an \$84 million reduction in the first nine months of 2018. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block division, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation. For a discussion of Closed Block division realized investment gains (losses), net, see “—General Account Investments.”

Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—U.S. GAAP results,” increased \$233 million primarily driven by an increase in net realized investment gains and related activity, and net investment income, as discussed above.

Benefits and expenses, as shown in the table above under “—U.S. GAAP results,” increased \$206 million primarily driven by a \$227 million increase in dividends to policyholders, reflecting an increase in the policyholder dividend obligation expense due to changes in cumulative earnings, as discussed above.

Nine Month Comparison. Revenues increased \$357 million primarily driven an increase in net realized investment gains and related activity, partially offset by a decrease in net investment income and premiums due to runoff of policies in force, as discussed above.

Benefits and expenses increased \$330 million, primarily driven by a \$377 million increase in dividends to policyholders, reflecting an increase in the policyholder dividend obligation expense due to changes in cumulative earnings, as discussed above.

Income Taxes

For information regarding income taxes, see Note 9 to the Unaudited Interim Consolidated Financial Statements.

**Experience-Rated Contractholder Liabilities,
Assets Supporting Experience-Rated Contractholder Liabilities and Other Related Investments**

Certain products included in the Retirement and International Insurance segments are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are carried at fair value. These investments are reflected on the Unaudited Interim Consolidated Statements of Financial Position as “Assets supporting experience-rated contractholder liabilities, at fair value.” Realized and unrealized gains (losses) for these investments are reported in “Other income (loss).” Interest and dividend income for these investments is reported in “Net investment income.” To a lesser extent, these experience-rated products are also supported by derivatives and commercial mortgage and other loans. The derivatives that support these experience-rated products are reflected on the Unaudited Interim Consolidated Statements of Financial Position as “Other invested assets” and are carried at fair value, and the realized and unrealized gains (losses) are reported in “Realized investment gains (losses), net.” The commercial mortgage and other loans that support these experience-rated products are carried at unpaid principal, net of unamortized discounts and an allowance for losses, and are reflected on the Unaudited Interim Consolidated Statements of Financial Position as “Commercial mortgage and other loans.” Gains (losses) on sales and changes in the valuation allowance for commercial mortgage and other loans are reported in “Realized investment gains (losses), net.”

Our Retirement segment has two types of experience-rated products that are supported by assets supporting experience-rated contractholder liabilities and other related investments. Fully participating products are those for which the entire return on underlying investments is passed back to the policyholders through a corresponding adjustment to the related liability, primarily classified in the Unaudited Interim Consolidated Statements of Financial Position as “Policyholders’ account balances.” The adjustment to the liability is based on changes in the fair value of all of the related assets, including commercial mortgage and other loans, which are carried at amortized cost, less any valuation allowance. Partially participating products are those for which only a portion of the return on underlying investments is passed back to the policyholders over time through changes to the contractual crediting rates. The crediting rates are typically reset semiannually, often subject to a minimum crediting rate, and returns are required to be passed back within ten years.

In our International Insurance segment, the experience-rated products are fully participating. As a result, the entire return on the underlying investments is passed back to policyholders through a corresponding adjustment to the related liability.

Adjusted operating income excludes net investment gains (losses) on assets supporting experience-rated contractholder liabilities, related derivatives and commercial mortgage and other loans. This is consistent with the exclusion of realized investment gains (losses) with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains (losses) on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in “Interest credited to policyholders’ account balances.” The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

The following table sets forth the impact on results for the periods indicated of these items that are excluded from adjusted operating income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in millions)				
Retirement Segment:				
Investment gains (losses) on:				
Assets supporting experience-rated contractholder liabilities, net	\$ 43	\$ (66)	\$ 678	\$ (574)
Derivatives	58	8	72	48
Commercial mortgages and other loans	5	6	0	9
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(112)	55	(722)	470
Net gains (losses)	<u>\$ (6)</u>	<u>\$ 3</u>	<u>\$ 28</u>	<u>\$ (47)</u>
International Insurance Segment:				
Investment gains (losses) on assets supporting experience-rated contractholder liabilities, net	\$ 48	\$ 76	\$ 154	\$ (12)
Change in experience-rated contractholder liabilities due to asset value changes	(48)	(76)	(154)	12
Net gains (losses)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total:				
Investment gains (losses) on:				
Assets supporting experience-rated contractholder liabilities, net	\$ 91	\$ 10	\$ 832	\$ (586)
Derivatives	58	8	72	48
Commercial mortgages and other loans	5	6	0	9
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(160)	(21)	(876)	482
Net gains (losses)	<u>\$ (6)</u>	<u>\$ 3</u>	<u>\$ 28</u>	<u>\$ (47)</u>

(1) Decreases to contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of \$7 million and \$132 million as of September 30, 2019 and 2018, respectively. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

(2) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are an increase of \$7 million and a decrease of \$9 million for the three months ended September 30, 2019 and 2018, respectively, and an increase of \$62 million and a decrease of \$40 million for the nine months ended September 30, 2019 and 2018, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

The net impacts, for the Retirement segment, of changes in experience-rated contractholder liabilities and investment gains (losses) on assets supporting experience-rated contractholder liabilities and other related investments reflect timing differences between the recognition of the mark-to-market adjustments and the recognition of the recovery of these adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities for partially participating products. These impacts also reflect the difference between the fair value of the underlying commercial mortgages and other loans and the amortized cost, less any valuation allowance, of these loans, as described above.

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value measurement establishes a framework that includes a three-level hierarchy used to classify the inputs used in measuring fair value. The level in the hierarchy within which the fair value falls is determined based on the lowest level input that is significant to the measurement. The fair values of assets and liabilities classified as Level 3 include at least one significant unobservable input in the measurement. See Note 6 to the Unaudited Interim Consolidated Financial Statements for an additional description of the valuation hierarchy levels as well as for the balances of assets and liabilities measured at fair value on a recurring basis by hierarchy level presented on a consolidated basis.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis, as of the periods indicated, and the portion of such assets and liabilities that are classified in Level 3 of the valuation hierarchy. The table also provides details about these assets and liabilities excluding those held in the Closed Block division. We believe the amounts excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 8 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

	As of September 30, 2019				As of December 31, 2018			
	PFI excluding Closed Block Division		Closed Block Division		PFI excluding Closed Block Division		Closed Block Division	
	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)
(in millions)								
Fixed maturities, available-for-sale	\$ 349,337	\$ 3,692	\$ 42,320	\$ 787	\$ 314,911	\$ 3,455	\$ 38,745	\$ 780
Assets supporting experience-rated contractholder liabilities:								
Fixed maturities	20,085	761	0	0	19,579	818	0	0
Equity securities	1,693	1	0	0	1,460	1	0	0
All other(2)	489	3	0	0	215	0	0	0
Subtotal	22,267	765	0	0	21,254	819	0	0
Fixed maturities, trading	3,536	293	243	11	3,048	204	195	2
Equity securities	4,813	569	2,064	74	4,316	604	1,784	67
Commercial mortgage and other loans	551	0	0	0	763	0	0	0
Other invested assets(3)	1,849	464	3	0	1,404	263	5	0
Short-term investments	5,453	218	230	76	5,040	65	453	24
Cash equivalents	9,199	1	328	0	9,027	59	451	18
Other assets	179	179	0	0	25	25	0	0
Separate account assets	277,811	1,660	0	0	254,066	1,534	0	0
Total assets	\$ 674,995	\$ 7,841	\$ 45,188	\$ 948	\$ 613,854	\$ 7,028	\$ 41,633	\$ 891
Future policy benefits	\$ 16,452	\$ 16,452	\$ 0	\$ 0	\$ 8,926	\$ 8,926	\$ 0	\$ 0
Policyholders' account balances	1,188	1,188	0	0	56	56	0	0
Other liabilities(3)	134	0	0	0	135	0	0	0
Notes issued by consolidated variable interest entities ("VIEs")	807	807	0	0	595	595	0	0
Total liabilities	\$ 18,581	\$ 18,447	\$ 0	\$ 0	\$ 9,712	\$ 9,577	\$ 0	\$ 0

(1) Level 3 assets expressed as a percentage of total assets measured at fair value on a recurring basis for PFI excluding the Closed Block division and for the Closed Block division totaled 1.2% and 2.1%, respectively, as of September 30, 2019, and 1.1% and 2.1%, respectively, as of December 31, 2018.

(2) "All other" represents cash equivalents and short-term investments.

(3) "Other invested assets" and "Other liabilities" primarily include derivatives. The amounts include the impact of netting subject to master netting agreements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations and may require the application of a greater degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. The following sections provide information regarding certain assets and liabilities which are valued using Level 3 inputs and could have a significant impact on our results of operations.

Fixed Maturity and Equity Securities

Fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or indicative broker quotes. For certain private fixed maturity and equity securities, the internal valuation models use significant unobservable inputs and, accordingly, such securities are included in Level 3 in our fair value hierarchy. Level 3 fixed maturity securities for PFI excluding the Closed Block division included approximately \$2.1 billion of public fixed maturities as of September 30, 2019, with values primarily based on indicative broker quotes, and approximately \$2.7 billion of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific spread adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. These inputs are usually considered unobservable, as not all market participants have access to this data.

The Company's determination to classify assets and liabilities within Level 3 is based on significance of the unobservable inputs in the overall fair value measurement. Periodically, transfers between levels are made to reflect changes in observability of inputs and market activity. All transfers are generally reported at the value as of the beginning of the quarter in which transfers occur for any such assets still held at the end of the quarter.

The impact that fair value changes of fixed maturity securities have on the results of operations is dependent on the classification of the security as trading, available-for-sale, or held-to-maturity. For investments classified as trading, changes in fair value are recorded within "Other income (loss)." For investments classified as available-for-sale, changes in fair value are recorded as an unrealized gain or loss in AOCI, a separate component of equity. Investments classified as held-to-maturity are carried at amortized cost and the changes in fair value have no impact on the results of operations.

Separate Account Assets

Separate account assets included in Level 3 primarily include corporate securities and commercial mortgage loans. The valuation of corporate securities is determined as described above for fixed maturity and equity securities. See Note 6 to the Unaudited Interim Consolidated Financial Statements for additional information on the valuation of commercial mortgage loans. Separate account liabilities are reported at contract value and not at fair value.

Variable Annuity Living Benefit Features

Future policy benefits classified in Level 3 primarily include liabilities related to guarantees associated with the living benefit features of certain variable annuity contracts offered by our Individual Annuities segment, including Guaranteed Minimum Accumulation Benefits ("GMAB"), Guaranteed Minimum Withdrawal Benefits ("GMWB") and Guaranteed Minimum Income and Withdrawal Benefits ("GMIWB"). These benefits are accounted for as embedded derivatives and carried at fair value with changes in fair value included in "Realized investment gains (losses), net." The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of future rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, based on capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. These models utilize significant assumptions that are primarily unobservable, including assumptions as to lapse rates, NPR, utilization rates, withdrawal rates, mortality rates and equity market volatility. Future policy benefits classified as Level 3 for PFI excluding the Closed Block division were a net liability of \$16.5 billion as of September 30, 2019. For additional information, see "—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities."

Notes Issued by Consolidated VIEs

As discussed in Note 4 to the Unaudited Interim Consolidated Financial Statements, notes issued by consolidated VIEs represent non-recourse notes issued by certain asset-backed investment vehicles, primarily collateralized loan obligations ("CLOs"), which we are required to consolidate. We have elected the fair value option for these notes, which are valued based on corresponding bank loan collateral.

For additional information about the key estimates and assumptions used in our determination of fair value, see Note 6 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

General Account Investments

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, policy loans and non-coupon investments, which include equity securities and other invested assets such as limited partnerships and limited liability companies (“LPs/LLCs”), real estate held through direct ownership, derivative instruments and seed money investments in separate accounts. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our PGIM segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor.

The following tables set forth the composition of our general account investment portfolio apportioned between PFI excluding the Closed Block division and the Closed Block division, as of the dates indicated:

	September 30, 2019				
	PFI Excluding Closed Block Division		Closed Block Division		Total
	(\$ in millions)				
Fixed maturities:					
Public, available-for-sale, at fair value	\$	297,821	65.2%	\$ 29,920	\$ 327,741
Public, held-to-maturity, at amortized cost		1,724	0.4	0	1,724
Private, available-for-sale, at fair value		51,017	11.2	12,400	63,417
Private, held-to-maturity, at amortized cost		234	0.1	0	234
Fixed maturities, trading, at fair value		2,353	0.5	243	2,596
Assets supporting experience-rated contractholder liabilities, at fair value		22,267	4.9	0	22,267
Equity securities, at fair value		4,276	0.9	2,064	6,340
Commercial mortgage and other loans, at book value		52,767	11.6	8,484	61,251
Policy loans, at outstanding balance		7,720	1.7	4,302	12,022
Other invested assets(1)		8,924	2.0	3,367	12,291
Short-term investments		6,979	1.5	323	7,302
Total general account investments		456,082	100.0%	61,103	517,185
Invested assets of other entities and operations(2)		6,319		0	6,319
Total investments	\$	462,401		\$ 61,103	\$ 523,504

	December 31, 2018			
	PFI Excluding Closed Block Division		Closed Block Division	Total
	(\$ in millions)			
Fixed maturities:				
Public, available-for-sale, at fair value	\$ 269,109	64.8%	\$ 26,203	\$ 295,312
Public, held-to-maturity, at amortized cost	1,745	0.4	0	1,745
Private, available-for-sale, at fair value	45,328	10.9	12,542	57,870
Private, held-to-maturity, at amortized cost	268	0.1	0	268
Fixed maturities, trading, at fair value	1,893	0.5	195	2,088
Assets supporting experience-rated contractholder liabilities, at fair value	21,254	5.1	0	21,254
Equity securities, at fair value	3,849	0.9	1,784	5,633
Commercial mortgage and other loans, at book value	50,251	12.1	8,782	59,033
Policy loans, at outstanding balance	7,606	1.8	4,410	12,016
Other invested assets(1)	8,407	2.0	3,316	11,723
Short-term investments	5,948	1.4	478	6,426
Total general account investments	415,658	100.0%	57,710	473,368
Invested assets of other entities and operations(2)	5,877		0	5,877
Total investments	\$ 421,535		\$ 57,710	\$ 479,245

(1) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments. For additional information regarding these investments, see “—Other Invested Assets” below.

(2) Includes invested assets of our investment management and derivative operations. Excludes assets of our investment management operations that are managed for third-parties and those assets classified as “Separate account assets” on our balance sheet. For additional information regarding these investments, see “—Invested Assets of Other Entities and Operations” below.

The increase in general account investments attributable to PFI excluding the Closed Block division in the first nine months of 2019 was primarily due to market appreciation from a decrease in U.S. and Japan interest rates and tighter credit spreads, the reinvestment of net investment income and net business inflows. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 6 to the Unaudited Interim Consolidated Financial Statements.

As of both September 30, 2019 and December 31, 2018, 43% of our general account investments attributable to PFI excluding the Closed Block division related to our Japanese insurance operations. The following table sets forth the composition of the investments of our Japanese insurance operations’ general account, as of the dates indicated:

	September 30, 2019	December 31, 2018
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	\$ 144,332	\$ 133,084
Public, held-to-maturity, at amortized cost	1,724	1,745
Private, available-for-sale, at fair value	18,678	16,222
Private, held-to-maturity, at amortized cost	234	268
Fixed maturities, trading, at fair value	481	328
Assets supporting experience-rated contractholder liabilities, at fair value	2,685	2,441
Equity securities, at fair value	2,109	1,972
Commercial mortgage and other loans, at book value	18,852	17,228
Policy loans, at outstanding balance	2,845	2,715
Other invested assets(1)	2,317	1,957
Short-term investments	269	451
Total Japanese general account investments	\$ 194,526	\$ 178,411

(1) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments and other miscellaneous investments.

The increase in general account investments related to our Japanese insurance operations in the first nine months of 2019 was primarily attributable to market appreciation from a decrease in U.S. and Japan interest rates and tighter credit spreads, net business inflows, and reinvestment of net investment income.

As of September 30, 2019, our Japanese insurance operations had \$76.9 billion, at carrying value, of investments denominated in U.S. dollars, including \$2.2 billion that were hedged to yen through third-party derivative contracts and \$62.4 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure to U.S. dollar-equivalent equity. As of December 31, 2018, our Japanese insurance operations had \$64.9 billion, at carrying value, of investments denominated in U.S. dollars, including \$2.5 billion that were hedged to yen through third-party derivative contracts and \$50.0 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure of U.S. dollar-equivalent equity. The \$12.0 billion increase in the carrying value of U.S. dollar-denominated investments from December 31, 2018 was primarily attributable to the impact of the decrease in the U.S. treasury bond rates, portfolio growth as a result of net business inflows and reinvestment of net investment income.

Our Japanese insurance operations had \$9.8 billion and \$10.1 billion, at carrying value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of September 30, 2019 and December 31, 2018, respectively. The \$0.3 billion decrease in the carrying value of Australian dollar-denominated investments from December 31, 2018 was primarily attributable to the run off of the portfolio. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations and a discussion of our yen hedging strategy, see “—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates” above.

Investment Results

The following tables set forth the investment results of our general account apportioned between PFI excluding the Closed Block division and the Closed Block division, for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest-related items, such as settlements of duration management swaps which are included in “Realized investment gains (losses), net.”

2019 to 2018 Three Month Comparison

	Three Months Ended September 30, 2019							
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
	(\$ in millions)							
Fixed maturities(2)	4.63 %	\$ 1,899	2.87 %	\$ 983	3.83 %	\$ 2,882	\$ 428	\$ 3,310
Assets supporting experience-rated contractholder liabilities	3.58	173	2.45	16	3.45	189	0	189
Equity securities	3.83	20	1.25	7	2.56	27	11	38
Commercial mortgage and other loans	4.09	344	4.11	190	4.10	534	96	630
Policy loans	5.43	66	3.94	28	4.88	94	66	160
Short-term investments and cash equivalents	2.53	100	4.82	7	2.61	107	10	117
Gross investment income	4.34	2,602	3.01	1,231	3.80	3,833	611	4,444
Investment expenses	(0.12)	(101)	(0.14)	(72)	(0.13)	(173)	(53)	(226)
Investment income after investment expenses	4.22 %	2,501	2.87 %	1,159	3.67 %	3,660	558	4,218
Other invested assets(3)		127		34		161	32	193
Investment results of other entities and operations(4)		27		0		27	0	27
Total investment income		\$ 2,655		\$ 1,193		\$ 3,848	\$ 590	\$ 4,438

Three Months Ended September 30, 2018								
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
(\$ in millions)								
Fixed maturities(2)	4.63 %	\$ 1,746	2.90 %	\$ 925	3.83 %	\$ 2,671	\$ 415	\$ 3,086
Assets supporting experience-rated contractholder liabilities	3.51	164	2.08	13	3.34	177	0	177
Equity securities	4.05	21	2.13	12	3.09	33	10	43
Commercial mortgage and other loans	3.94	325	3.84	158	3.90	483	99	582
Policy loans	5.33	64	3.92	25	4.84	89	65	154
Short-term investments and cash equivalents	2.50	68	3.47	9	2.56	77	6	83
Gross investment income	4.34	2,388	2.99	1,142	3.78	3,530	595	4,125
Investment expenses	(0.16)	(100)	(0.13)	(61)	(0.15)	(161)	(50)	(211)
Investment income after investment expenses	<u>4.18 %</u>	<u>2,288</u>	<u>2.86 %</u>	<u>1,081</u>	<u>3.63 %</u>	<u>3,369</u>	<u>545</u>	<u>3,914</u>
Other invested assets(3)		60		26		86	15	101
Investment results of other entities and operations(4)		31		0		31	0	31
Total investment income		<u>\$ 2,379</u>		<u>\$ 1,107</u>		<u>\$ 3,486</u>	<u>\$ 560</u>	<u>\$ 4,046</u>

(1) For interim periods, yields are annualized. The denominator in the yield percentage is based on quarterly average carrying values for all asset types except for fixed maturities which are based on amortized cost. Amounts for fixed maturities, short-term investments and cash equivalents are also netted for securities lending activity (i.e., income netted for rebate expenses and asset values netted for securities lending liabilities). A yield is not presented for other invested assets as it is not considered a meaningful measure of investment performance. Total yields exclude investment income and assets related to other invested assets.

(2) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading, which are included in other invested assets.

(3) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments, fixed maturities classified as trading and other miscellaneous investments.

(4) Includes net investment income of our investment management operations.

(5) The total yield was 3.76% and 3.74% for the three months ended September 30, 2019 and 2018, respectively.

The increase in investment income after investment expenses yield attributable to our general account investments, excluding both the Closed Block division and the Japanese insurance operations' portfolio, for the three months ended September 30, 2019, compared to the three months ended September 30, 2018, was primarily driven by acquisition rates exceeding disposition rates over the preceding twelve months.

The increase in investment income after investment expenses yield attributable to the Japanese insurance operations' portfolio, for the three months ended September 30, 2019, compared to the three months ended September 30, 2018, was primarily the result of higher returns of short-term investments and higher mortgage loan prepayment income.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$50.5 billion and \$43.6 billion for the three months ended September 30, 2019 and 2018, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$8.6 billion and \$9.5 billion for the three months ended September 30, 2019 and 2018, respectively. The majority of Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see "—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates" above.

2019 to 2018 Nine Month Comparison

Nine Months Ended September 30, 2019								
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
(\$ in millions)								
Fixed maturities(2)	4.67 %	\$ 5,634	2.86 %	\$ 2,875	3.85 %	\$ 8,509	\$ 1,273	\$ 9,782
Assets supporting experience-rated contractholder liabilities	3.61	513	2.26	43	3.45	556	0	556
Equity securities	2.72	42	2.72	41	2.72	83	36	119
Commercial mortgage and other loans	4.13	1,026	3.97	529	4.07	1,555	289	1,844
Policy loans	5.33	192	3.91	80	4.81	272	191	463
Short-term investments and cash equivalents	2.71	289	4.23	21	2.77	310	29	339
Gross investment income	4.38	7,696	3.00	3,589	3.82	11,285	1,818	13,103
Investment expenses	(0.13)	(310)	(0.14)	(211)	(0.13)	(521)	(162)	(683)
Investment income after investment expenses	4.25 %	7,386	2.86 %	3,378	3.69 %	10,764	1,656	12,420
Other invested assets(3)		297		137		434	71	505
Investment results of other entities and operations(4)		119		0		119	0	119
Total investment income		\$ 7,802		\$ 3,515		\$ 11,317	\$ 1,727	\$ 13,044

Nine Months Ended September 30, 2018								
	PFI Excluding Closed Block Division and Japanese Operations		Japanese Insurance Operations		PFI Excluding Closed Block Division		Closed Block Division	Total(5)
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount	Amount	Amount
(\$ in millions)								
Fixed maturities(2)	4.67 %	\$ 5,195	2.93 %	\$ 2,770	3.87 %	\$ 7,965	\$ 1,272	\$ 9,237
Assets supporting experience-rated contractholder liabilities	3.64	511	1.99	38	3.44	549	0	549
Equity securities	2.49	40	3.09	50	2.79	90	34	124
Commercial mortgage and other loans	4.00	972	3.92	457	3.98	1,429	307	1,736
Policy loans	5.38	192	3.91	75	4.86	267	195	462
Short-term investments and cash equivalents	2.03	183	2.41	26	2.06	209	23	232
Gross investment income	4.35	7,093	3.04	3,416	3.81	10,509	1,831	12,340
Investment expenses	(0.17)	(285)	(0.13)	(174)	(0.15)	(459)	(151)	(610)
Investment income after investment expenses	4.18 %	6,808	2.91 %	3,242	3.66 %	10,050	1,680	11,730
Other invested assets(3)		180		86		266	64	330
Investment results of other entities and operations(4)		80		0		80	0	80
Total investment income		\$ 7,068		\$ 3,328		\$ 10,396	\$ 1,744	\$ 12,140

(1) For interim periods, yields are annualized. The denominator in the yield percentage is based on quarterly average carrying values for all asset types except for fixed maturities which are based on amortized cost. Amounts for fixed maturities, short-term investments and cash equivalents are also netted for securities lending activity (i.e., income netted for rebate expenses and asset values netted for securities lending liabilities). A yield is not presented for other invested assets as it is not considered a meaningful measure of investment performance. Total yields exclude investment income and assets related to other invested assets.

- (2) Includes fixed maturity securities classified as available-for-sale and held-to-maturity and excludes fixed maturity securities classified as trading, which are included in other invested assets.
- (3) Other invested assets consist of investments in LPs/LLCs, investment real estate held through direct ownership, derivative instruments, fixed maturities classified as trading and other miscellaneous investments.
- (4) Includes net investment income of our investment management operations.
- (5) The total yield was 3.78% and 3.77% for the nine months ended September 30, 2019 and 2018, respectively.

The increase in investment income after investment expenses yield attributable to our general account investments, excluding both the Closed Block division and the Japanese insurance operations’ portfolio, for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, was primarily the result of higher returns on short-term investments based on an increase in short-term rates.

The decrease in investment income after investment expenses yield attributable to the Japanese insurance operations’ portfolio, for the nine months ended September 30, 2019, compared to the nine months ended September 30, 2018, was primarily the result of lower reinvestment rates.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$47.4 billion and \$43.8 billion for the nine months ended September 30, 2019 and 2018, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third-party derivative contracts was approximately \$8.7 billion and \$9.9 billion for the nine months ended September 30, 2019 and 2018, respectively. The majority of Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars. For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see “—Results of Operations by Segment—Impact of Foreign Currency Exchange Rates” above.

Realized Investment Gains and Losses

The following table sets forth “Realized investment gains (losses), net” of our general account apportioned between PFI excluding Closed Block division and the Closed Block division by investment type as well as related charges and adjustments, for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in millions)				
PFI excluding Closed Block Division:				
Realized investment gains (losses), net:				
Due to foreign exchange movements on securities approaching maturity	\$ (29)	\$ 0	\$ (45)	\$ (16)
Due to securities actively marketed for sale	(3)	1	(4)	(10)
Due to credit or adverse conditions of the respective issuer(1)	(94)	(24)	(136)	(63)
OTTI losses on fixed maturities recognized in earnings(2)	(126)	(23)	(185)	(89)
Net gains (losses) on sales and maturities	319	111	691	426
Fixed maturities(3)	193	88	506	337
Commercial mortgage and other loans	6	2	(5)	(12)
Derivatives	222	62	(1,247)	688
OTTI losses on other invested assets recognized in earnings(4)	(1)	0	(1)	(6)
Other net gains (losses)	39	(2)	44	77
Other	38	(2)	43	71
Subtotal	459	150	(703)	1,084
Investment results of other entities and operations(5)	44	5	(1)	73
Total — PFI excluding Closed Block Division	503	155	(704)	1,157
Related adjustments	(121)	116	(125)	(406)
Realized investment gains (losses), net, and related adjustments	382	271	(829)	751
Related charges	(92)	(94)	(149)	(233)
Realized investment gains (losses), net, and related charges and adjustments	\$ 290	\$ 177	\$ (978)	\$ 518
Closed Block Division:				
Realized investment gains (losses), net:				
Due to foreign exchange movements on securities approaching maturity	\$ (11)	\$ (1)	\$ (45)	\$ (23)
Due to securities actively marketed for sale	0	(6)	0	(8)
Due to credit or adverse conditions of the respective issuer(1)	(6)	(2)	(12)	(9)
OTTI losses on fixed maturities recognized in earnings(2)	(17)	(9)	(57)	(40)
Net gains (losses) on sales and maturities	185	(3)	241	22
Fixed maturities(3)	168	(12)	184	(18)
Commercial mortgage and other loans	0	0	0	(2)
Derivatives	182	8	275	121
OTTI losses on other invested assets recognized in earnings(4)	0	0	0	(1)
Other net gains (losses)	0	0	(4)	4
Other	0	0	(4)	3
Subtotal — Closed Block Division	350	(4)	455	104
Consolidated PFI realized investment gains (losses), net	\$ 853	\$ 151	\$ (249)	\$ 1,261

(1) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused or will lead to a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

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

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

(4) Primarily includes OTTI related to investments in LPs/LLCs and real estate held through direct ownership.

(5) Includes “Realized investment gains (losses), net” of our investment management operations.

Three Month Comparison. Net gains on sales and maturities of fixed maturity securities were \$319 million and \$111 million for the third quarter of 2019 and 2018, respectively, primarily driven by the impact of foreign currency exchange rate movements of U.S. and Australian dollar-denominated securities that matured or were sold within our International Insurance segment.

Net realized gains on derivative instruments of \$222 million for the third quarter of 2019 primarily included:

- \$880 million of gains on interest rate derivatives due to decreases in swap and U.S. Treasury rates;
- \$451 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the euro and British pound;
- \$37 million of gains for fees earned on fee-based synthetic guaranteed investment contracts (“GICs”);

Partially offsetting these gains were:

- \$(1,136) million of losses on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts; and
- \$(37) million of losses on capital hedges due to increases in equity indices.

Net realized gains on derivative instruments of \$62 million for the third quarter of 2018 primarily included:

- \$502 million of gains on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts;
- \$60 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the euro and British pound, partially offset by Japanese yen depreciation;
- \$37 million of gains for fees earned on fee-based synthetic GICs;

Partially offsetting these gains were:

- \$(294) million of losses on interest rate derivatives due to increases in swap and U.S. Treasury rates; and
- \$(245) million of losses on capital hedges due to increases in equity indices.

For a discussion of living benefit guarantees and related hedge positions in our Individual Annuities segment, see “—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities” above.

Related adjustments include the portions of “Realized investment gains (losses), net” that are included in adjusted operating income and the portions of “Other income (loss)” and “Net investment income” that are excluded from adjusted operating income. These adjustments are made to arrive at “Realized investment gains (losses), net, and related adjustments” which are excluded from adjusted operating income. Results for the third quarter of 2019 and 2018 reflected net negative related adjustments of \$121 million and net positive related adjustments of \$116 million, respectively. Both periods’ results reflected settlements and changes in values related to interest rate and currency derivatives, the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities, for which the majority of the foreign currency exposure is hedged and offset in “Realized Investment gains (losses), net” and the changes in fair value of equity securities recorded in “Other income (loss).”

Charges that relate to “Realized investment gains (losses), net” are also excluded from adjusted operating income and may be reflected as net charges or net benefits. Results for the third quarter of 2019 and 2018 reflected net related charges of \$92 million and \$94 million, respectively. Both periods’ results were driven by the impact of derivative activity on the amortization of DAC, other costs and certain policyholder reserves.

Nine Month Comparison. Net gains on sales and maturities of fixed maturity securities were \$691 million and \$426 million for the first nine months of 2019 and 2018, respectively, primarily driven by the impact of foreign currency exchange rate movements of U.S. and Australian dollar-denominated securities that matured or were sold within our International Insurance segment.

Net realized losses on derivative instruments of \$(1,247) million for the first nine months of 2019 primarily included:

- \$(3,555) million of losses on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts;
- \$(700) million of losses on capital hedges due to increases in equity indices;

Partially offsetting these losses were:

- \$1,984 million of gains on interest rate derivatives due to decreases in swap and U.S. Treasury rates;
- \$696 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the euro and British pound and Japanese yen appreciation;
- \$109 million of gains for fees earned on fee-based synthetic GICs; and
- \$108 million of gains on credit default swaps primarily due to spreads tightening.

Net realized gains on derivative instruments of \$688 million for the first nine months of 2018 primarily included:

- \$1,326 million of gains on product-related embedded derivatives and related hedge positions associated with certain variable annuity contracts;
- \$293 million of gains on foreign currency hedges due to U.S. dollar appreciation versus the euro and British pound;
- \$113 million of gains for fees earned on fee-based synthetic GICs;

Partially offsetting these gains were:

- \$(745) million of losses on interest rate derivatives due to increases in swap and U.S. Treasury rates; and
- \$(270) million of losses on capital hedges due to increases in equity indices.

For a discussion of living benefit guarantees and related hedge positions in our Individual Annuities segment, see “—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities” above.

Results for the first nine months of 2019 and 2018 included net negative related adjustments of \$125 million and \$406 million, respectively. Both periods’ results reflected settlements and changes in values related to interest rate and currency derivatives as well as the impact of foreign currency exchange rate movements on certain non-local currency denominated assets and liabilities, for which the majority of the foreign currency exposure is hedged and offset in “Realized Investment gains (losses), net.” Additionally, the results of the first nine months of 2019 included changes in fair value of equity securities recorded in “Other income (loss).”

Results for the first nine months of 2019 and 2018 reflected net related charges of \$149 million and \$233 million, respectively. Both periods’ results were driven by the impact of derivative activity on the amortization of DAC, other costs and certain policyholder reserves.

Impairments

The level of OTTI generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of OTTI have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. We may also realize additional credit and interest rate-related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish “checks and balances” for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our public and private fixed maturity investment managers formally review all public and private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances and/or company or industry-specific concerns.

For LPs/LLCs accounted for using the equity method, 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. For additional information regarding our OTTI policies, 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, 2018.

Retail-Related Investments

As of September 30, 2019, PFI excluding the Closed Block division had retail-related investments of approximately \$14 billion consisting primarily of \$6 billion of corporate fixed maturities of which 90% were considered investment grade; \$7 billion of commercial mortgage loans with a weighted-average loan-to-value ratio of approximately 51% and a weighted-average debt service coverage ratio of 2.43 times; and \$1 billion of real estate held through direct ownership and real estate-related LPs/LLCs.

In addition, we held approximately \$11 billion of commercial mortgage-backed securities, of which approximately 79% and 21% were rated AAA (super-senior) and AA, respectively, and comprised of diversified collateral pools. Approximately 30% of the collateral pools were comprised of retail-related investments, with no pools solely collateralized by retail-related investments. For additional information regarding commercial mortgage-backed securities, see “—Fixed Maturity Securities—Fixed Maturity Securities Credit Quality” below.

General Account Investments of PFI excluding Closed Block Division

In the following sections, we provide details about our investment portfolio, excluding investments held in the Closed Block division. We believe the details of the composition of our investment portfolio excluding the Closed Block division are most relevant to an understanding of our operations that are pertinent to investors in Prudential Financial because substantially all Closed Block division assets support obligations and liabilities relating to the Closed Block policies only. See Note 8 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

Fixed Maturity Securities

In the following sections, we provide details about our fixed maturity securities portfolio, which excludes fixed maturity securities classified as assets supporting experience-rated contractholder liabilities and classified as trading.

Fixed Maturity Securities and Unrealized Gains and Losses by Industry

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to PFI excluding the Closed Block division and the associated gross unrealized gains and losses, as of the dates indicated:

Industry(1)	September 30, 2019				December 31, 2018			
	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
(in millions)								
Corporate securities:								
Finance	\$ 33,997	\$ 2,740	\$ 131	\$ 36,606	\$ 29,831	\$ 726	\$ 724	\$ 29,833
Consumer non-cyclical	24,533	3,022	155	27,400	24,136	1,172	748	24,560
Utility	22,036	2,789	99	24,726	22,179	1,073	624	22,628
Capital goods	12,072	1,203	121	13,154	11,623	561	386	11,798
Consumer cyclical	11,063	1,011	81	11,993	11,001	429	330	11,100
Foreign agencies	5,585	1,000	14	6,571	5,946	785	91	6,640
Energy	12,667	1,116	223	13,560	11,753	524	553	11,724
Communications	5,909	936	40	6,805	6,163	455	234	6,384
Basic industry	6,031	498	54	6,475	5,431	238	158	5,511
Transportation	8,862	843	60	9,645	8,633	428	225	8,836
Technology	3,345	273	24	3,594	3,855	155	99	3,911
Industrial other	3,772	438	39	4,171	3,764	151	154	3,761
Total corporate securities	149,872	15,869	1,041	164,700	144,315	6,697	4,326	146,686
Foreign government(3)	98,840	23,160	52	121,948	97,087	16,942	301	113,728
Residential mortgage-backed(4)	3,178	197	1	3,374	3,205	120	31	3,294
Asset-backed	10,317	138	30	10,425	9,803	122	62	9,863
Commercial mortgage-backed	10,259	594	3	10,850	8,953	87	86	8,954
U.S. Government	23,319	5,685	5	28,999	22,290	2,563	569	24,284
State & Municipal	9,442	1,459	0	10,901	9,456	607	63	10,000
Total(5)	\$ 305,227	\$ 47,102	\$ 1,132	\$ 351,197	\$ 295,109	\$ 27,138	\$ 5,438	\$ 316,809

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

(2) Includes \$401 million of gross unrealized gains as of September 30, 2019, compared to \$359 million of gross unrealized gains and less than \$1 million of gross unrealized losses, as of December 31, 2018, on securities classified as held-to-maturity.

(3) As of both September 30, 2019 and December 31, 2018, based on amortized cost, 76% represent Japanese government bonds held by our Japanese insurance operations with no other individual country representing more than 10% and 11% of the balance, respectively.

(4) As of both September 30, 2019 and December 31, 2018, based on amortized cost, more than 99% were rated A or higher.

(5) Excluded from the table above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see “—Invested Assets of Other Entities and Operations” below.

The increase in net unrealized gains from December 31, 2018 to September 30, 2019 was primarily due to a decrease in U.S. and Japan interest rates and credit spread tightening.

Fixed Maturity Securities Credit Quality

The Securities Valuation Office (“SVO”) of the National Association of Insurance Commissioners (“NAIC”) evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called “NAIC Designations.” In general, NAIC Designations of “1” highest quality, or “2” high quality, include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody’s Investor Service, Inc. (“Moody’s”) or BBB- or higher by Standard & Poor’s Rating Services (“S&P”). NAIC Designations of “3” through “6” generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody’s and BB+ or lower by S&P. The NAIC Designations for commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages, are based on security level expected losses as modeled by an independent third-party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized.

As a result of time lags between the funding of investments, the finalization of legal documents, and the completion of the SVO filing process, the fixed maturity portfolio includes certain securities that have not yet been designated by the SVO as of each balance sheet date. Pending receipt of SVO designations, the categorization of these securities by NAIC Designation is based on the expected ratings indicated by internal analysis.

Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency (“FSA”), an agency of the Japanese government. The FSA has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the FSA’s credit quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody’s and S&P, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

The following table sets forth our fixed maturity portfolio by NAIC Designation or equivalent rating attributable to PFI excluding the Closed Block division, as of the dates indicated:

NAIC Designation(1)(2)	September 30, 2019				December 31, 2018			
	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)(4)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)(4)	Fair Value
	(in millions)							
1	\$ 230,564	\$ 40,606	\$ 154	\$ 271,016	\$ 222,290	\$ 24,138	\$ 2,568	\$ 243,860
2	57,637	5,309	530	62,416	55,768	2,267	1,999	56,036
Subtotal High or Highest Quality Securities(5)	288,201	45,915	684	333,432	278,058	26,405	4,567	299,896
3	10,226	756	131	10,851	10,149	330	408	10,071
4	5,140	317	184	5,273	5,254	291	368	5,177
5	1,426	88	120	1,394	1,395	99	77	1,417
6	234	26	13	247	253	13	18	248
Subtotal Other Securities(6)(7)	17,026	1,187	448	17,765	17,051	733	871	16,913
Total fixed maturities	\$ 305,227	\$ 47,102	\$ 1,132	\$ 351,197	\$ 295,109	\$ 27,138	\$ 5,438	\$ 316,809

(1) Reflects equivalent ratings for investments of the international insurance operations.

(2) Includes, as of September 30, 2019 and December 31, 2018, 1,043 securities with amortized cost of \$4,697 million (fair value, \$4,950 million) and 1,744 securities with amortized cost of \$9,079 million (fair value, \$9,135 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.

(3) Includes \$401 million of gross unrealized gains as of September 30, 2019, compared to \$359 million of gross unrealized gains and less than \$1 million of gross unrealized losses, as of December 31, 2018, on securities classified as held-to-maturity.

(4) As of September 30, 2019, includes gross unrealized losses of \$305 million on public fixed maturities and \$143 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2018, includes gross unrealized losses of \$591 million on public fixed maturities and \$280 million on private fixed maturities considered to be other than high or highest quality.

(5) On an amortized cost basis, as of September 30, 2019, includes \$246,282 million of public fixed maturities and \$41,919 million of private fixed maturities and, as of December 31, 2018, includes \$238,824 million of public fixed maturities and \$39,234 million of private fixed maturities.

(6) On an amortized cost basis, as of September 30, 2019, includes \$9,835 million of public fixed maturities and \$7,191 million of private fixed maturities and, as of December 31, 2018, includes \$10,588 million of public fixed maturities and \$6,463 million of private fixed maturities.

(7) On an amortized cost basis, as of September 30, 2019, securities considered below investment grade based on lowest of external rating agency ratings total \$19,309 million, or 6% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.

Asset-Backed and Commercial Mortgage-Backed Securities

The following table sets forth the amortized cost and fair value of asset-backed and commercial mortgage-backed securities within our fixed maturity available-for-sale portfolio attributable to PFI excluding the Closed Block division by credit quality, as of the dates indicated:

Lowest Rating Agency Rating(1)	September 30, 2019				December 31, 2018			
	Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)		Asset-Backed Securities(2)		Commercial Mortgage-Backed Securities(3)	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)							
AAA	\$ 9,860	\$ 9,867	\$ 8,109	\$ 8,522	\$ 9,188	\$ 9,151	\$ 7,523	\$ 7,528
AA	289	309	2,135	2,312	405	430	1,415	1,410
A	9	11	6	7	30	36	6	7
BBB	13	15	9	9	15	15	9	9
BB and below	146	223	0	0	165	231	0	0
Total(4)	\$ 10,317	\$ 10,425	\$ 10,259	\$ 10,850	\$ 9,803	\$ 9,863	\$ 8,953	\$ 8,954

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of September 30, 2019, including S&P, Moody's, Fitch Ratings, Inc. ("Fitch") and Morningstar, Inc. ("Morningstar").

(2) Includes CLOs, credit-tranched securities collateralized by auto loans, education loans, credit cards, and other asset types.

(3) As of September 30, 2019 and December 31, 2018, based on amortized cost, 97% and 96% were securities with vintages of 2013 or later, respectively.

(4) Excludes fixed maturity securities classified as "Assets supporting experience-rated contractholder liabilities" and "Fixed maturities, trading," as well as securities held outside the general account in other entities and operations.

Included in "Asset-backed securities" above are investments in CLOs. The following table sets forth information pertaining to these investments in CLOs within our fixed maturity available-for-sale portfolio attributable to PFI excluding the Closed Block division, as of the dates indicated:

	September 30, 2019		December 31, 2018	
	Collateralized Loan Obligations			
<u>Lowest Rating Agency Rating(1)</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
	(in millions)			
AAA	\$ 7,697	\$ 7,678	\$ 7,355	\$ 7,318
AA	0	0	0	0
A	0	0	0	0
BBB	0	0	0	0
BB and below	0	0	0	0
Total(2)	\$ 7,697	\$ 7,678	\$ 7,355	\$ 7,318

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of September 30, 2019, including S&P, Moody's, Fitch and Morningstar.

(2) Excludes fixed maturity securities classified as "Assets supporting experience-rated contractholder liabilities" and "Fixed maturities, trading," as well as securities held outside the general account in other entities and operations.

Assets Supporting Experience-Rated Contractholder Liabilities

For information regarding the composition of "Assets supporting experience-rated contractholder liabilities," see Note 3 to the Unaudited Interim Consolidated Financial Statements.

Commercial Mortgage and Other Loans

Investment Mix

The following table sets forth the composition of our commercial mortgage and other loans portfolio attributable to PFI excluding the Closed Block division, as of the dates indicated:

	September 30, 2019	December 31, 2018
	(in millions)	
Commercial mortgage and agricultural property loans	\$ 52,050	\$ 49,524
Uncollateralized loans	660	658
Residential property loans	132	158
Other collateralized loans	26	17
Total recorded investment gross of allowance(1)	52,868	50,357
Allowance for credit losses	(101)	(106)
Total net commercial mortgage and other loans(2)	\$ 52,767	\$ 50,251

(1) As a percentage of recorded investment gross of allowance, more than 99% of these assets were current as of both September 30, 2019 and December 31, 2018.

(2) Excluded from the table above are commercial mortgage and other loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage and other loans held outside the general account, see “—Invested Assets of Other Entities and Operations” below.

We originate commercial mortgage and agricultural property loans using a dedicated sales and underwriting staff through our various regional offices in the U.S. and international offices primarily in London and Tokyo. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our industry experience in real estate and mortgage lending.

Uncollateralized loans primarily represent corporate loans which do not meet the definition of a security under authoritative accounting guidance.

Residential property loans primarily include Japanese recourse loans. Upon default of these recourse loans, we can make a claim against the personal assets of the property owner, in addition to the mortgaged property. These loans are also backed by third-party guarantors.

Other collateralized loans include consumer loans.

Composition of Commercial Mortgage and Agricultural Property Loans

Our commercial mortgage and agricultural property loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by geographic region and property type, as of the dates indicated:

	September 30, 2019		December 31, 2018	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
(\$ in millions)				
Commercial mortgage and agricultural property loans by region:				
U.S. Regions(1):				
Pacific	\$ 17,938	34.5%	\$ 16,553	33.4%
South Atlantic	9,056	17.4	8,633	17.4
Middle Atlantic	6,220	11.9	6,088	12.3
East North Central	3,343	6.4	2,813	5.7
West South Central	5,338	10.3	5,044	10.2
Mountain	2,467	4.7	2,508	5.0
New England	1,816	3.5	1,879	3.8
West North Central	457	0.9	476	1.0
East South Central	576	1.1	595	1.2
Subtotal-U.S.	47,211	90.7	44,589	90.0
Europe	2,952	5.7	3,077	6.2
Asia	767	1.5	733	1.5
Other	1,120	2.1	1,125	2.3
Total commercial mortgage and agricultural property loans	\$ 52,050	100.0%	\$ 49,524	100.0%

(1) Regions as defined by the United States Census Bureau.

	September 30, 2019		December 31, 2018	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
(\$ in millions)				
Commercial mortgage and agricultural property loans by property type:				
Industrial	\$ 12,202	23.4%	\$ 10,490	21.2%
Retail	6,509	12.5	6,693	13.5
Office	10,606	20.4	10,971	22.1
Apartments/Multi-Family	14,634	28.1	13,818	27.9
Other	3,358	6.5	3,255	6.6
Agricultural properties	2,879	5.5	2,710	5.5
Hospitality	1,862	3.6	1,587	3.2
Total commercial mortgage and agricultural property loans	\$ 52,050	100.0%	\$ 49,524	100.0%

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial mortgage and agricultural property loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan and is commonly expressed as a percentage. A loan-to-value ratio less than 100% indicates an excess of collateral value over the loan amount. Loan-to-value ratios greater than 100% indicate that the loan amount exceeds the collateral value. The debt service coverage ratio compares a property's net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan's current debt payments. A debt service coverage ratio greater than 1.0 times indicates an excess of net operating income over the debt service payments.

As of September 30, 2019, our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division had a weighted-average debt service coverage ratio of 2.40 times and a weighted-average loan-to-value ratio of 56%. As of September 30, 2019, 97% of commercial mortgage and agricultural property loans were fixed rate loans. For those commercial mortgage and agricultural property loans that were originated in 2019, the weighted-average debt service coverage ratio was 2.35 times, and the weighted-average loan-to-value ratio was 63%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial mortgage and agricultural property loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal quality rating is a key input in determining our allowance for credit losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial mortgage and agricultural property loan portfolio included \$1.2 billion and \$0.7 billion of such loans as of September 30, 2019 and December 31, 2018, respectively. All else being equal, these loans are inherently riskier than those collateralized by properties that have already stabilized. As of September 30, 2019, there were no loan-specific reserves related to these loans. In addition, these unstabilized loans are included in the calculation of our portfolio reserve, as discussed below.

The following table sets forth the gross carrying value of our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by loan-to-value and debt service coverage ratios, as of the date indicated:

<u>Loan-to-Value Ratio</u>	September 30, 2019			
	<u>Debt Service Coverage Ratio</u>			<u>Total Commercial Mortgage and Agricultural Property Loans</u>
	<u>≥ 1.2x</u>	<u>1.0x to < 1.2x</u>	<u>< 1.0x</u>	
	(in millions)			
0%-59.99%	\$ 27,792	\$ 814	\$ 94	\$ 28,700
60%-69.99%	15,333	504	0	15,837
70%-79.99%	6,651	638	0	7,289
80% or greater	71	115	38	224
Total commercial mortgage and agricultural property loans	\$ 49,847	\$ 2,071	\$ 132	\$ 52,050

The following table sets forth the breakdown of our commercial mortgage and agricultural property loans attributable to PFI excluding the Closed Block division by year of origination, as of the date indicated:

<u>Year of Origination</u>	September 30, 2019	
	<u>Gross Carrying Value</u>	<u>% of Total</u>
	(\$ in millions)	
2019	\$ 6,360	12.2%
2018	8,657	16.6
2017	7,769	14.9
2016	6,690	12.9
2015	6,528	12.5
2014	5,124	9.9
2013	5,092	9.8
2012 & Prior	5,830	11.2
Total commercial mortgage and agricultural property loans	<u>\$ 52,050</u>	<u>100.0%</u>

Commercial Mortgage and Other Loans Quality

The commercial mortgage and other loans portfolio is monitored on an ongoing basis. If certain criteria are met, loans are assigned to either of the following “watch list” categories:

- (1) “Closely Monitored,” which includes a variety of considerations, such as when loan metrics fall below acceptable levels, the borrower is not cooperative or has requested a material modification, or the portfolio manager has directed a change in category; or
- (2) “Not in Good Standing,” which includes loans in default or with a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy.

Our workout and special servicing professionals manage the loans on the watch list.

We establish an allowance for credit losses to provide for the risk of credit losses inherent in the lending process. The allowance includes loan-specific reserves for loans that are determined to be impaired as a result of our loan review process and a portfolio reserve for probable incurred but not specifically identified losses for loans which are not on the watch list. We define an impaired loan as a loan for which we estimate it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The loan-specific portion of the allowance for credit losses is based on our assessment as to ultimate collectability of loan principal and interest. An allowance for credit losses for an impaired loan is recorded based on the present value of expected future cash flows discounted at the loan’s effective interest rate, or based on the fair value of the collateral if the loan is collateral dependent. The portfolio reserve for incurred but not specifically identified losses considers the current credit composition of the portfolio based on the internal quality ratings mentioned above. The portfolio reserves are determined using past loan experience, including historical credit migration, loss probability and loss severity factors by property type. These factors are reviewed and updated as appropriate. The allowance for credit losses for commercial mortgage and other loans can increase or decrease from period to period based on these factors.

The following table sets forth the change in allowance for credit losses for our commercial mortgage and other loans portfolio, as of the dates indicated:

	September 30, 2019	December 31, 2018
	(in millions)	
Allowance, beginning of year	\$ 106	\$ 91
Addition to (release of) allowance for credit losses	(5)	15
Charge-offs, net of recoveries	0	0
Change in foreign exchange	0	0
Allowance, end of period	\$ 101	\$ 106
Loan-specific reserve	\$ 0	\$ 11
Portfolio reserve	\$ 101	\$ 95

The allowance for credit losses as of September 30, 2019 decreased compared to December 31, 2018, primarily due to the payoff of a loan included in the loan-specific reserve.

Equity Securities

The equity securities attributable to PFI excluding the Closed Block division consist principally of investments in Common and Preferred Stock of publicly-traded companies, as well as mutual fund shares. The following table sets forth the composition of our equity securities portfolio and the associated gross unrealized gains and losses, as of the dates indicated:

	September 30, 2019				December 31, 2018			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in millions)								
Mutual funds	\$ 820	\$ 196	\$ 0	\$ 1,016	\$ 769	\$ 87	\$ 13	\$ 843
Other Common Stocks	2,292	982	63	3,211	2,353	751	118	2,986
Non-redeemable Preferred Stocks	51	4	6	49	24	0	4	20
Total equity securities, at fair value(1)	<u>\$ 3,163</u>	<u>\$ 1,182</u>	<u>\$ 69</u>	<u>\$ 4,276</u>	<u>\$ 3,146</u>	<u>\$ 838</u>	<u>\$ 135</u>	<u>\$ 3,849</u>

(1) Amounts presented exclude investments in private equity and hedge funds and other investments which are reported in “Other invested assets.”

The net change in unrealized gains (losses) from equity securities attributable to PFI excluding Closed Block division still held at period end, recorded within “Other income (loss),” was \$80 million and \$53 million during the three months ended September 30, 2019 and 2018, respectively, and \$410 million and \$(109) million during the nine months ended September 30, 2019 and 2018, respectively.

Other Invested Assets

The following table sets forth the composition of “Other invested assets” attributable to PFI excluding the Closed Block division, as of the dates indicated:

	September 30, 2019	December 31, 2018
	(in millions)	
LPs/LLCs:		
Equity method:		
Private equity	\$ 2,623	\$ 2,318
Hedge funds	1,197	836
Real estate-related	766	544
Subtotal equity method	4,586	3,698
Fair value:		
Private equity	944	938
Hedge funds	1,235	1,256
Real estate-related	53	44
Subtotal fair value	2,232	2,238
Total LPs/LLCs	6,818	5,936
Real estate held through direct ownership(1)	1,424	1,777
Derivative instruments	52	42
Other(2)	630	652
Total other invested assets	<u>\$ 8,924</u>	<u>\$ 8,407</u>

(1) As of September 30, 2019 and December 31, 2018, real estate held through direct ownership had mortgage debt of \$577 million and \$776 million, respectively.

(2) Primarily includes leveraged leases and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 16 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Invested Assets of Other Entities and Operations

“Invested Assets of Other Entities and Operations” presented below includes investments held outside the general account and primarily represents investments associated with our investment management operations and derivative operations. Our derivative operations act on behalf of affiliates primarily to manage interest rate, foreign currency, credit and equity exposures. Assets within our investment management operations that are managed for third-parties and those assets classified as “Separate account assets” on our balance sheet are not included.

	September 30, 2019	December 31, 2018
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value(1)	\$ 498	\$ 473
Private, available-for-sale, at fair value	1	1
Fixed maturities, trading, at fair value(1)	1,183	1,155
Equity securities, at fair value	674	605
Commercial mortgage and other loans, at book value(2)	582	797
Other invested assets(1)	3,363	2,803
Short-term investments	18	43
Total investments	\$ 6,319	\$ 5,877

(1) As of September 30, 2019 and December 31, 2018, balances include investments in collateralized loan obligations with fair value of \$414 million and \$408 million, respectively.

(2) Book value is generally based on unpaid principal balance, net of any allowance for credit losses, or at fair value, when the fair value option has been elected.

Fixed Maturities, Trading

“Fixed maturities, trading, at fair value” are primarily related to assets associated with consolidated VIEs for which the Company is the investment manager. The assets of the consolidated VIEs are generally offset by liabilities for which the fair value option has been elected. For further information on these consolidated VIEs, see Note 4 to the Unaudited Interim Consolidated Financial Statements.

Commercial Mortgage and Other Loans

Our investment management operations include our commercial mortgage operations, which provide mortgage origination, investment management and servicing for our general account, institutional clients, the Federal Housing Administration and government-sponsored entities such as Fannie Mae and Freddie Mac.

The mortgage loans of our commercial mortgage operations are included in “Commercial mortgage and other loans.” Derivatives and other hedging instruments related to our commercial mortgage operations are primarily included in “Other invested assets.”

Other Invested Assets

“Other invested assets” primarily include assets of our derivative operations used to manage interest rate, foreign currency, credit, and equity exposures.

Furthermore, other invested assets include strategic investments made as part of our investment management operations. We make these strategic investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other strategic investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). As part of our investment management operations, we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds. Other invested assets also include certain assets in consolidated investment funds where the Company is deemed to exercise control over the funds.

Liquidity and Capital Resources

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 and our access to the capital markets and the alternate sources of liquidity and capital described herein.

Effective and prudent liquidity and capital management is a priority across the organization. Management monitors the liquidity of Prudential Financial and its subsidiaries on a daily basis and projects borrowing and capital needs over a multi-year time horizon through our periodic planning process. We believe that capital and liquidity resources are sufficient to satisfy the capital and liquidity requirements of Prudential Financial and its subsidiaries, including under reasonably foreseeable stress scenarios. We use a Risk Appetite Framework (“RAF”) to ensure that all risks taken across the Company align with our capacity and willingness to take those risks. The RAF provides a dynamic assessment of capital and liquidity stress impacts and is intended to ensure that sufficient resources are available to absorb those impacts under comprehensive stresses.

Our businesses are subject to comprehensive regulation and supervision by domestic and international regulators. These regulations currently include, or may include in the future requirements and limitations (many of which are the subject of ongoing rule-making) relating to capital, leverage, liquidity, stress-testing, overall risk management, credit exposure reporting and credit concentration. For information on regulation and its potential impact, see “Business—Regulation” and “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2018 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Regulatory Developments” within this Form 10-Q.

During the nine months ended September 30, 2019, we took the following significant actions that impacted our liquidity and capital position:

- We repurchased \$2.0 billion of shares of our Common Stock and declared aggregate Common Stock dividends of \$1,238 million;
- In the third quarter of 2019, we increased our 2019 share repurchase authorization to \$2.5 billion to offset expected dilution from the Common Stock issuance related to the Assurance acquisition;
- On September 30, 2019, we entered into a ¥100 billion five-year credit facility with a syndicate of lenders, with terms similar to the prior three-year syndicated credit facility expiring on that date. There were no borrowings under the facility as of September 30, 2019;
- In August 2019, we issued approximately 6.2 million shares of our Common Stock to the holders of Prudential Insurance’s \$500 million of exchangeable surplus notes upon their exercise of the exchange option. The Company’s obligations under the surplus notes are now satisfied;
- We issued \$2.5 billion of senior notes to be utilized for general corporate purposes, which may include refinancing portions of our senior notes maturing during 2019 and 2020, and to fund the acquisition of Assurance; and
- In the second quarter of 2019, PGIM closed on a \$300 million limited-recourse credit facility that is secured by certain of PGIM’s fund investments.

In October 2019, we completed the acquisition of Assurance. See Note 16 to the Unaudited Interim Consolidated Financial Statements for additional information about the acquisition, including the acquisition consideration.

Capital

The primary components of the Company’s capitalization consist of equity and outstanding capital debt, including junior subordinated debt. As shown in the table below, as of September 30, 2019, the Company had \$52.8 billion in capital, all of which was available to support the aggregate capital requirements of its divisions and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital is consistent with our ratings targets.

	September 30, 2019	December 31, 2018
	(in millions)	
Equity(1)	\$ 38,240	\$ 37,711
Junior subordinated debt (including hybrid securities)	7,574	7,568
Other capital debt	7,000	5,793
Total capital	<u>\$ 52,814</u>	<u>\$ 51,072</u>

(1) Amounts attributable to Prudential Financial, excluding AOCL.

We manage PICA, The Prudential Life Insurance Company, Ltd. (“Prudential of Japan”), Gibraltar Life, and other significant insurance subsidiaries to regulatory capital levels consistent with our “AA” ratings targets. We utilize the risk-based capital (“RBC”) ratio as a primary measure of the capital adequacy of our domestic insurance subsidiaries and the solvency margin ratio as a primary measure of the capital adequacy of our Japanese insurance subsidiaries.

The table below presents the RBC ratios of our most significant domestic insurance subsidiaries as of December 31, 2018, the most recent statutory fiscal year-end and RBC reporting date for these subsidiaries.

	Ratio(1)
PICA(2)	385%
Prudential Annuities Life Assurance Corporation (“PALAC”)	511%
Composite Major U.S. Insurance Subsidiaries(3)	417%

(1) The 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.

(2) Includes Prudential Retirement Insurance and Annuity Company (“PRIAC”), Pruco Life Insurance Company (“Pruco Life”), Pruco Life Insurance Company of New Jersey (“PLNJ”), which is a subsidiary of Pruco Life, and Prudential Legacy Insurance Company of New Jersey (“PLIC”).

(3) Includes PICA and its subsidiaries, as noted above, and PALAC. Composite RBC is not reported to regulators and is based on the summation of total adjusted capital and risk charges for the included companies as determined under statutory accounting and RBC guidance to calculate a composite numerator and denominator, respectively, for purposes of calculating the composite ratio.

The table below presents the solvency margin ratios of our most significant international insurance subsidiaries as of June 30, 2019, the most recent date for which this information is available.

	Ratio
Prudential of Japan consolidated(1)	848%
Gibraltar Life consolidated(2)	894%

(1) Includes Prudential Trust Co., Ltd., a subsidiary of Prudential of Japan.

(2) Includes Prudential Gibraltar Financial Life Insurance Co., Ltd. (“PGFL”), a subsidiary of Gibraltar Life.

All of our domestic and significant international insurance subsidiaries have capital levels that substantially exceed the minimum level required by applicable insurance regulations. Our regulatory capital levels may be affected in the future by changes to the applicable regulations, proposals for which are currently under consideration by both domestic and international insurance regulators. For further information on the calculation of RBC and solvency margin ratios, as well as regulatory minimums, see Note 18 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Risk Appetite Framework

We manage our capital consistent with our Risk Appetite Framework (“RAF”) to determine the amount of capital the Company needs to hold given its risk profile. The RAF is designed to ensure that all risks taken across the Company align with our capacity and willingness to take those risks. It allows for a cohesive assessment of risk and available resources and supports management’s decision-making. The RAF is supported by our comprehensive stress testing framework to provide a dynamic assessment of stress impacts and the resources available to absorb those impacts under stress scenarios. It incorporates the objectives of what we previously referred to as our Capital Protection Framework.

Captive Reinsurance Companies

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital—Captive Reinsurance Companies” included in our Annual Report on Form 10-K for the year ended December 31, 2018, for a discussion of our use of captive reinsurance companies.

Shareholder Distributions

Share Repurchase Program and Shareholder Dividends

In December 2018, our Board of Directors (the “Board”) authorized the Company to repurchase at management’s discretion up to \$2.0 billion of its outstanding Common Stock during the period from January 1, 2019 through December 31, 2019. In September 2019, the Board authorized a \$500 million increase to the authorization for calendar year 2019. As a result, the Company’s aggregate share repurchase authorization for calendar year 2019 is \$2.5 billion.

The timing and amount of share repurchases are determined by management based on market conditions and other considerations, including any increased capital needs of our businesses due to, among other things, changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be executed in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934.

The following table sets forth information about declarations of Common Stock dividends, as well as repurchases of shares of Prudential Financial’s Common Stock, for the nine months ended September 30, 2019.

Three months ended:	Dividend Amount		Shares Repurchased	
	Per Share	Aggregate	Shares	Total Cost
	(in millions, except per share data)			
March 31, 2019	\$ 1.00	\$ 415	5.4	\$ 500
June 30, 2019	\$ 1.00	\$ 411	5.0	\$ 500
September 30, 2019	\$ 1.00	\$ 412	11.4	\$ 1,000

Liquidity

The principles of our liquidity management framework are described in an enterprise-wide policy that is reviewed and approved by the Board. Liquidity management and stress testing are performed on a legal entity basis as the ability to transfer funds between subsidiaries is limited due in part to regulatory restrictions. Liquidity needs are determined through daily and quarterly cash flow forecasting at the holding company and within our operating subsidiaries. We seek to maintain a minimum balance of highly liquid assets to ensure that adequate liquidity is available at Prudential Financial to cover fixed expenses in the event that we experience reduced cash flows from our operating subsidiaries at a time when access to capital markets is also not available.

We seek to mitigate the risk of having limited or no access to financing due to stressed market conditions by generally pre-funding debt in advance of maturity. We mitigate the refinancing risk associated with our debt that is used to fund operating needs by matching the term of debt with the assets financed. To ensure adequate liquidity in stress scenarios, stress testing is performed for our major operating subsidiaries. We seek to further mitigate liquidity risk by maintaining our access to alternative sources of liquidity, as discussed below.

Liquidity of Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends, returns of capital and loans from subsidiaries, and proceeds from debt issuances and certain stock-based compensation activity. These sources of funds may be supplemented by Prudential Financial’s access to the capital markets as well as the “—Alternative Sources of Liquidity” described below.

The primary uses of funds at Prudential Financial include servicing debt, making capital contributions and loans to subsidiaries, paying declared shareholder dividends and repurchasing outstanding shares of Common Stock executed under authority from the Board.

As of September 30, 2019, Prudential Financial had highly liquid assets with a carrying value totaling \$6,974 million, an increase of \$796 million from December 31, 2018. Highly liquid assets predominantly include cash, short-term investments, U.S. Treasury securities, obligations of other U.S. government authorities and agencies, and/or foreign government bonds. We maintain an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding the balance of this intercompany liquidity account, Prudential Financial had highly liquid assets of \$6,217 million as of September 30, 2019, an increase of \$669 million from December 31, 2018.

The following table sets forth Prudential Financial's principal sources and uses of highly liquid assets, excluding net borrowings from our intercompany liquidity account, for the period indicated.

	Nine Months Ended September 30, 2019 (in millions)
Sources:	
Proceeds from the issuance of debt	\$ 2,465
Dividends and/or returns of capital from subsidiaries(1)	2,289
Net receipts under intercompany loan agreements(2)	971
Proceeds from stock-based compensation and exercise of stock options	298
Total sources	6,023
Uses:	
Share repurchases(3)	1,940
Common stock dividends(4)	1,237
Repayments on external debt	1,113
Interest paid on external debt	666
Capital contributions to subsidiaries(5)	268
Net income tax payments	60
Other, net	70
Total uses	5,354
Net increase (decrease) in highly liquid assets	\$ 669

(1) Includes dividends and/or returns of capital of \$1,018 million from international insurance subsidiaries, \$737 million from PALAC, \$406 million from PGIM subsidiaries, \$119 million from Prudential Annuities Holding Company, and \$9 million from other subsidiaries.

(2) Includes net receipts of \$818 million from international insurance subsidiaries, \$258 million from PGIM subsidiaries and payments of \$105 million to other subsidiaries.

(3) Excludes \$60 million related to trades that settled in October 2019.

(4) Includes cash payments made on dividends declared in prior periods.

(5) Includes capital contributions of \$200 million to PICA and \$68 million to PGIM subsidiaries.

Dividends and Returns of Capital from Subsidiaries

Domestic insurance subsidiaries. During the first nine months of 2019, Prudential Financial received dividends of \$737 million from PALAC and \$119 million from Prudential Annuities Holding Company.

International insurance subsidiaries. During the first nine months of 2019, Prudential Financial received dividends of \$1,018 million from its international insurance subsidiaries. In addition to paying Common Stock dividends, our international insurance operations may return capital to Prudential Financial through or facilitated by other means, such as the repayment of Preferred Stock obligations held by Prudential Financial or other affiliates, affiliated lending, affiliated derivatives and reinsurance with U.S.- and Bermuda-based affiliates. In 2019, our Japan insurance operations entered into reinsurance agreements with Gibraltar Re, our Bermuda-based reinsurance affiliate, to reinsure the mortality and morbidity risk associated with a portion of the in-force contracts as well as newly-issued contracts for certain products. We expect these transactions will allow us to more efficiently manage our capital and risk profile.

Other subsidiaries. During the first nine months of 2019, Prudential Financial received dividends of \$406 million from PGIM subsidiaries and \$9 million from other subsidiaries.

Restriction on dividends and returns of capital from subsidiaries. Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. Also, more generally, the payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors.

With respect to our domestic insurance subsidiaries, PICA is permitted to pay ordinary dividends based on calculations specified under New Jersey insurance law, subject to prior notification to the New Jersey Department of Banking and Insurance ("NJDOBI"). Any distributions above this amount in any twelve-month period are considered to be "extraordinary" dividends, and the approval of the NJDOBI is required prior to payment. The laws regulating dividends of the states where our other domestic insurance companies are domiciled are similar, but not identical, to New Jersey's.

Capital redeployment from our international insurance subsidiaries is subject to local regulatory requirements in the international jurisdictions in which they operate. Our most significant international insurance subsidiaries, Prudential of Japan and Gibraltar Life, are permitted to pay Common Stock dividends based on calculations specified by Japanese insurance law, subject to prior notification to the FSA. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the FSA.

The ability of our PGIM subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint.

See Note 18 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2018, for details on specific dividend restrictions.

Liquidity of Insurance Subsidiaries

We manage the liquidity of our insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity within each of our insurance subsidiaries is provided by a variety of sources, including portfolios of liquid assets. The investment portfolios of our subsidiaries are integral to the overall liquidity of our insurance operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of each of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities.

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 insurance operations' 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 for each of our insurance subsidiaries.

The principal sources of liquidity for our insurance subsidiaries are premiums, investment and fee income, investment maturities, sales of investments, and sales associated with our insurance and annuity operations, as well as internal and external borrowings. The principal uses of that liquidity include benefits, claims and dividends paid to policyholders, 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 holding company, hedging and reinsurance activity and payments in connection with financing activities.

The following table sets forth the fair value of certain of our domestic insurance operations' portfolio of liquid assets, as of the dates indicated.

	September 30, 2019						December 31, 2018
	Prudential Insurance	PLIC	PRIAC	PALAC (in billions)	Pruco Life	Total	
Cash and short-term investments	\$ 5.4	\$ 0.7	\$ 0.5	\$ 6.5	\$ 0.5	\$ 13.6	\$ 11.1
Fixed maturity investments(1):							
High or highest quality	123.9	38.0	20.0	13.1	5.6	200.6	179.2
Other than high or highest quality	7.4	2.8	1.2	0.5	0.4	12.3	11.3
Subtotal	131.3	40.8	21.2	13.6	6.0	212.9	190.5
Public equity securities, at fair value	0.1	2.0	0.0	0.1	0.0	2.2	1.9
Total	\$ 136.8	\$ 43.5	\$ 21.7	\$ 20.2	\$ 6.5	\$ 228.7	\$ 203.5

(1) Excludes fixed maturities designated as held-to-maturity. Credit quality is based on NAIC or equivalent rating.

The following table sets forth the fair value of our international insurance operations' portfolio of liquid assets, as of the dates indicated.

	September 30, 2019				December 31, 2018
	Prudential of Japan	Gibraltar Life(1)	All Other(2) (in billions)	Total	
Cash and short-term investments	\$ 0.8	\$ 2.3	\$ 1.5	\$ 4.6	\$ 4.1
Fixed maturity investments(3):					
High or highest quality(4)	43.8	94.1	22.4	160.3	149.1
Other than high or highest quality	0.7	3.1	2.2	6.0	6.2
Subtotal	44.5	97.2	24.6	166.3	155.3
Public equity securities	1.9	1.7	0.7	4.3	4.0
Total	\$ 47.2	\$ 101.2	\$ 26.8	\$ 175.2	\$ 163.4

(1) Includes PGFL.

(2) Represents our international insurance operations, excluding Japan.

(3) Excludes fixed maturities designated as held-to-maturity. Credit quality is based on NAIC or equivalent rating.

(4) As of September 30, 2019, \$122.4 billion, or 76%, were invested in government or government agency bonds.

Liquidity associated with other activities

Hedging activities associated with Individual Annuities

For the portion of our Individual Annuities' ALM strategy executed through hedging, as well as the capital hedge program, we enter into a range of exchange-traded, cleared and other OTC equity and interest rate derivatives in order to hedge certain capital market risks related to more severe market conditions. For a full discussion of our Individual Annuities' risk management strategy, see "—Results of Operations by Segment—U.S. Individual Solutions Division—Individual Annuities." This portion of our Individual Annuities' ALM strategy and capital hedge program requires access to liquidity to meet payment obligations relating to these derivatives, such as payments for periodic settlements, purchases, maturities and terminations. These liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality and policyholder behavior.

The hedging portion of our Individual Annuities' ALM strategy and capital hedge program may also result in derivative-related collateral postings to (when we are in a net pay position) or from (when we are in a net receive position) counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs when we are in a net pay position. As of September 30, 2019, the derivatives comprising the hedging portion of our ALM strategy and capital hedge program were in a net receive position of \$7.2 billion compared to a net receive position of \$2.9 billion as of December 31, 2018. The change in collateral position was driven by a net positive impact from declining interest rates, partially offset by rising equity markets.

Foreign exchange hedging activities

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the yen. Our overall yen hedging strategy calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company's overall return on equity on a leverage neutral basis. The hedging strategy includes two primary components:

Income Hedges—We hedge a portion of our prospective yen-based earnings streams by entering into external forward currency derivative contracts that effectively fix the currency exchange rates for that portion of earnings, thereby reducing volatility from foreign currency exchange rate movements. As of September 30, 2019, we have hedged 100%, 97%, 61% and 17% of expected yen-based earnings for 2019, 2020, 2021 and 2022, respectively.

Equity Hedges—We hold both internal and external hedges primarily to hedge our USD-equivalent equity. These hedges also mitigate volatility in the solvency margins of yen-based subsidiaries resulting from changes in the market value of their USD-denominated investments hedging our U.S. dollar-equivalent equity attributable to changes in the yen-U.S. dollar exchange rate.

For additional information on our hedging strategy, see "—Results of Operations—Impact of Foreign Currency Exchange Rates."

Cash settlements from these hedging activities result in cash flows between subsidiaries of Prudential Financial and either international-based subsidiaries or external parties. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. For example, a significant yen depreciation over an extended period of time could result in net cash inflows, while a significant yen appreciation could result in net cash outflows. The following tables set forth information about net cash settlements and the net asset or liability resulting from these hedging activities related to the yen and other currencies for the and as of periods indicated.

	Nine Months Ended September 30,	
	2019	2018
Cash Settlements: Received (Paid)	(in millions)	
Income Hedges (External)(1)	\$ 51	\$ (25)
Equity Hedges:		
Internal(2)	314	66
External(3)	100	205
Total Equity Hedges	414	271
Total Cash Settlements	\$ 465	\$ 246
	September 30,	December 31,
	2019	2018
Assets (Liabilities):	(in millions)	
Income Hedges (External)(4)	\$ 104	\$ 67
Equity Hedges:		
Internal(2)	487	436
External(5)	98	78
Total Equity Hedges(6)	585	514
Total Assets (Liabilities)	\$ 689	\$ 581

(1) Includes non-yen related cash settlements of \$30 million, primarily denominated in Australian dollar, Korean won and Brazilian real and \$(15) million, primarily denominated in Korean won, Chilean peso and Australian dollar, for the nine months ended September 30, 2019 and 2018, respectively.

(2) Represents internal transactions between international-based and U.S.-based entities. Amounts noted are from the U.S.-based entities' perspectives.

(3) Includes non-yen related cash settlements of \$12 million, denominated in Korean won for the nine months ended September 30, 2019.

(4) Includes non-yen related assets of \$87 million, primarily denominated in Korean won, Australian dollar and Brazilian real, and assets of \$44 million, primarily denominated in Australian dollar and Brazilian real, as of September 30, 2019 and December 31, 2018, respectively.

(5) Includes non-yen related assets of \$36 million, denominated in Korean won, and liabilities of \$(2) million, denominated in Korean won, as of September 30, 2019 and December 31, 2018, respectively.

(6) As of September 30, 2019, approximately \$152 million, \$324 million, \$270 million and \$(161) million of the net market values are scheduled to settle in 2019, 2020, 2021 and thereafter, respectively. The net market value of the assets (liabilities) will vary with changing market conditions to the extent there are no corresponding offsetting positions.

PGIM operations

The principal sources of liquidity for our fee-based PGIM businesses include asset management fees and commercial mortgage origination and servicing fees. The principal uses of liquidity include general and administrative expenses, facilitating our commercial mortgage loan business and distributions of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee-based PGIM businesses relate to their profitability, which is impacted by market conditions and our investment management performance. We believe the cash flows from our fee-based PGIM businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our strategic investments held in our PGIM businesses are cash flows from investments, the ability to liquidate investments, borrowing lines from internal sources, including Prudential Financial and Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of PICA, and external sources. The principal use of liquidity for our strategic investments includes making investments to support business growth and paying interest expense from the internal and external borrowings used to fund those investments. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults. There have been no material changes to the liquidity position of our PGIM operations since December 31, 2018.

Alternative Sources of Liquidity

In addition to asset-based financing as discussed below, Prudential Financial and certain subsidiaries have access to other sources of liquidity, including syndicated, unsecured committed credit facilities, membership in the Federal Home Loan Banks, commercial paper programs and a put option agreement. For more information on these sources of liquidity, see Note 10 to the Unaudited Interim Consolidated Financial Statements contained herein and Note 16 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2018.

Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls, to earn spread income, to borrow funds, or to facilitate trading activity. These programs are primarily driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments (primarily corporate bonds), mortgage loans and fixed maturities (primarily collateralized loan obligations and other structured securities), with a weighted average life at time of purchase by the short-term portfolios of four years or less. Floating rate assets comprise the majority of our short-term spread portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

The following table sets forth our liabilities under asset-based or secured financing programs as of the dates indicated.

	September 30, 2019			December 31, 2018		
	PFI Excluding Closed Block Division	Closed Block Division	Consolidated	PFI Excluding Closed Block Division	Closed Block Division	Consolidated
	(\$ in millions)					
Securities sold under agreements to repurchase	\$ 6,570	\$ 2,671	\$ 9,241	\$ 6,982	\$ 2,968	\$ 9,950
Cash collateral for loaned securities	3,486	1,242	4,728	3,063	866	3,929
Securities sold but not yet purchased	0	0	0	9	0	9
Total(1)	\$ 10,056	\$ 3,913	\$ 13,969	\$ 10,054	\$ 3,834	\$ 13,888
Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral(2)	\$ 10,056	\$ 3,913	\$ 13,969	\$ 9,875	\$ 3,834	\$ 13,709
Weighted average maturity, in days(2)(3)	N/A	N/A		10	N/A	

(1) The daily weighted average outstanding balance for the three and nine months ended September 30, 2019 was \$10,516 million and \$10,555 million, respectively, for PFI excluding the Closed Block division, and \$4,205 million and \$4,160 million, respectively, for the Closed Block division.

(2) Prior period amounts have been updated to conform to current period presentation.

(3) Excludes securities that may be returned to the Company overnight. "N/A" reflects that all outstanding balances may be returned to the Company overnight.

As of September 30, 2019, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of \$124.3 billion, of which \$14.0 billion were on loan. Taking into account market conditions and outstanding loan balances as of September 30, 2019, we believe approximately \$17.9 billion of the remaining eligible assets are readily lendable, including approximately \$12.8 billion relating to PFI excluding the Closed Block division, of which \$4.0 billion relates to certain separate accounts and may only be used for financing activities related to those accounts, and the remaining \$5.1 billion relating to the Closed Block division.

Financing Activities

As of September 30, 2019, total short-term and long-term debt of the Company on a consolidated basis was \$20.6 billion, an increase of \$0.8 billion from December 31, 2018. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such actions will depend on prevailing market conditions, our liquidity position and other factors.

	September 30, 2019			December 31, 2018		
	Prudential Financial	Subsidiaries	Consolidated	Prudential Financial	Subsidiaries	Consolidated
Borrowings:	(in millions)					
General obligation short-term debt:						
Commercial paper	\$ 25	\$ 553	\$ 578	\$ 15	\$ 727	\$ 742
Current portion of long-term debt	652	0	652	1,100	499	1,599
Subtotal	677	553	1,230	1,115	1,226	2,341
General obligation long-term debt:						
Senior debt	10,438	173	10,611	8,630	173	8,803
Junior subordinated debt	7,516	58	7,574	7,511	57	7,568
Surplus notes(1)	0	342	342	0	341	341
Subtotal	17,954	573	18,527	16,141	571	16,712
Total general obligations	18,631	1,126	19,757	17,256	1,797	19,053
Limited and non-recourse borrowings(2):						
Short-term debt	0	8	8	0	53	53
Current portion of long-term debt	0	252	252	0	57	57
Long-term debt	0	624	624	0	666	666
Total limited and non-recourse borrowings	0	884	884	0	776	776
Total borrowings	\$ 18,631	\$ 2,010	\$ 20,641	\$ 17,256	\$ 2,573	\$ 19,829

(1) Amounts are net of assets under set-off arrangements of \$9,270 million and \$9,095 million as of September 30, 2019 and December 31, 2018, respectively.

(2) Limited and non-recourse borrowing primarily represents mortgage debt of our subsidiaries that has recourse only to real estate investment property of \$577 million and \$776 million as of September 30, 2019 and December 31, 2018, respectively, and a draw on a credit facility with recourse only to collateral pledged by the Company of \$299 million and \$0 as of September 30, 2019 and December 31, 2018, respectively.

As of September 30, 2019, and December 31, 2018, we were in compliance with all debt covenants related to the borrowings in the table above. For further information on our short- and long-term debt obligations, see Note 10 to the Unaudited Interim Consolidated Financial Statements contained herein and Note 16 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2018.

Prudential Financial's borrowings increased \$1.375 billion from December 31, 2018, primarily driven by the issuance, net of related costs, of \$2.465 billion of senior debt and a \$10 million increase in commercial paper outstanding, offset by \$1.1 billion in debt maturities. Borrowings of our subsidiaries decreased \$563 million from December 31, 2018, primarily driven by \$499 million in debt maturities, a \$199 million decrease in mortgage debt, and a \$174 million decrease in commercial paper, offset by a \$299 million draw on a credit facility and a \$8 million increase in short-term debt.

Term and Universal Life Reserve Financing

We use captive reinsurance subsidiaries to finance the portion of the statutory reserves required to be held by our domestic life insurance companies under Regulation XXX and Guideline AXXX that we consider to be non-economic. The financing arrangements involve the reinsurance of term and universal life business to our captive reinsurers and the issuance of surplus notes by those captives that are treated as capital for statutory purposes. These surplus notes are subordinated to policyholder obligations, and the payment of principal and interest on the surplus notes can only be made with prior insurance regulatory approval.

We have entered into agreements with external counterparties providing for the issuance of surplus notes by our captive reinsurers in return for the receipt of credit-linked notes ("Credit-Linked Note Structures"). As of September 30, 2019, we had Credit-Linked Note Structures with an aggregate issuance capacity of \$13,700 million, of which \$11,570 million was outstanding, as compared to an aggregate issuance capacity of \$13,750 million, of which \$11,445 million was outstanding, as of December 31, 2018. Under the agreements, the 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 captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. 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, 2018.

The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of September 30, 2019.

Credit-Linked Note Structures:	Surplus Notes		Outstanding as of September 30, 2019	Facility Size
	Original Issue Dates	Maturity Dates		
			(\$ in millions)	
XXX	2011-2014	2021-2024	\$ 1,750 (1)	\$ 1,750
AXXX	2013	2033	3,164	3,500
XXX	2014-2018	2021-2034	2,300 (2)	2,450
XXX	2014-2017	2024,2037	2,200	2,400
AXXX	2017	2037	1,466	2,000
XXX	2018	2038	690	1,600
Total Credit-Linked Note Structures			\$ 11,570	\$ 13,700

(1) Prudential Financial has agreed to reimburse any amounts paid under the credit-linked notes issued in this structure.

(2) The \$2.3 billion of surplus notes represents an intercompany transaction that eliminates upon consolidation. Prudential Financial has agreed to reimburse amounts paid under credit-linked notes issued in this structure up to \$1.0 billion.

As of September 30, 2019, we also had outstanding an aggregate of \$2.4 billion of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$0.7 billion relates to Regulation XXX reserves and approximately \$1.7 billion relates to Guideline AXXX reserves. In addition, as of September 30, 2019, for purposes of financing Guideline AXXX reserves, one of our captives had approximately \$4.0 billion of surplus notes outstanding that were issued to affiliates.

The Company has introduced updated versions of its individual life products in conjunction with the requirement to adopt principle-based reserving by January 1, 2020. These updated products are currently priced to support the principle-based statutory reserve level without the need for reserve financing. Certain elements of the implementation of principle-based reserving are yet to be finalized by the NAIC and may have a material impact on statutory reserves. The Company continues to assess the impact of the implementation of principle-based reserving on projected statutory reserve levels, product pricing and the use of financing.

Ratings

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Ratings” in our Annual Report on Form 10-K for the year ended December 31, 2018, for a discussion of our financial strength and credit ratings and their impact on our business.

The following is a summary of significant changes or actions in ratings and rating outlooks for our Company that have occurred from January 1, 2019 through the date of this filing.

On May 9, 2019, Moody’s Investors Service upgraded the financial strength rating of Prudential Insurance, Pruco Life and PRIAC to ‘Aa3’ from ‘A1’ with a Stable outlook. Moody’s also upgraded Prudential Financial’s long-term senior debt rating to ‘A3’ from ‘Baa1’ with a Stable outlook.

Off-Balance Sheet Arrangements

Guarantees, Other Contingencies and Other Contingent Commitments

In the course of our business, we provide certain guarantees and indemnities to third-parties pursuant to which we may be contingently required to make payments in the future. We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. See “—Commitments and Guarantees” within Note 15 to the Unaudited Interim Consolidated Financial Statements for additional information. For further discussion of certain of these commitments that relate to our separate accounts, also see “—Liquidity—Liquidity associated with other activities—PGIM operations.”

Other Off-Balance Sheet Arrangements

In November 2013, we entered into a put option agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to \$1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust. In 2014, Prudential Financial entered into financing transactions, pursuant to which it issued \$500 million of limited-recourse notes and, in return, obtained \$500 million of asset-backed notes from a Delaware master trust and ultimately contributed the asset-backed notes to its subsidiary, PRIAC. As of September 30, 2019, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited-recourse notes. Accordingly, none of the notes are reflected in the Company's Unaudited Interim Consolidated Financial Statements as of that date.

Other than as described above, we do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, other than the agreements referred to above, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. As of September 30, 2019, there have been no material changes in our economic exposure to market risk from December 31, 2018, a description of which may be found in our Annual Report on Form 10-K, for the year ended December 31, 2018, Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," filed with the Securities and Exchange Commission. See Item 1A, "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2018, 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 Exchange Act Rule 13a-15(e), as of September 30, 2019. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2019, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended September 30, 2019, 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 15 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, 2018. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially 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” and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q. The following should be read in conjunction with and supplements and amends the section titled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018.

We are subject to risks relating to the acquisition, and post-acquisition operations, of Assurance IQ, Inc. (“Assurance”).

In October 2019, we completed the acquisition of Assurance IQ, Inc. (the “Acquisition”). For a description of Assurance and the Acquisition, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Business Update” and Note 16 to the Unaudited Interim Consolidated Financial Statements. We are subject to certain risks relating to the Acquisition and the ongoing operations of Assurance, which risks could adversely affect, possibly materially, our business, results of operations, financial position or liquidity or prevent us from realizing the expected benefits from the Acquisition. These risks include the following:

- We have begun and expect to continue to incur costs in connection with the Acquisition and the related integration of Assurance into our Financial Wellness strategy. The costs and liabilities incurred in connection with the Acquisition and subsequent integration process may exceed those anticipated. We may not realize the growth, earnings, cost savings, efficiencies or synergies that we anticipate.
- There is the risk that we will be exposed to obligations and liabilities of Assurance that are not adequately covered, in amount, scope or duration, by the indemnification provisions in the merger agreement or representation and warranty insurance policy, or reflected or reserved for in the historical financial statements of Assurance, and there is the risk that such historical financial statements may contain errors.
- There is the risk that Assurance will lose key personnel or experience higher than expected employee attrition rates that would adversely affect the performance of the business or our ability to integrate it successfully. In addition, there is the risk that product manufacturers, independent agents and guides on the Assurance platform will choose to stop doing business with Assurance.
- Pursuant to the merger agreement, the Company has agreed to take, or refrain from taking, certain actions with respect to Assurance prior to 2023, and a violation of this agreement may accelerate payment of the full \$1.15 billion contingent consideration.
- We may experience difficulties in integrating Assurance into our Financial Wellness strategy and the process may take longer than expected. The integration will require the dedication of significant management resources, which may distract management’s attention from day-to-day business operations.

Assurance is also subject to many of the other risks described in the “Risk Factors” section included in the Annual Report on Form 10-K for the year ended December 31, 2018 to which our existing businesses are subject, including but not limited, to risks associated with economic, market and political conditions, and operational, information security, regulatory and legal matters. In some cases, given Assurance’s business model, those risks could have an increased impact.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Sale of securities by the Company during the three months ended September 30, 2019 that were not registered under the Securities Act of 1933, as amended (the “Securities Act”).

In August 2019, the Company issued approximately 6.2 million shares of its Common Stock in connection with the exchange of \$500 million of exchangeable surplus notes due September 2019. The exchange was effected in accordance with the terms of the notes, which provides that the surplus notes be exchanged at the option of the holder, in whole but not in part, for shares of Prudential Financial’s Common Stock. The exchange rate for the surplus notes was 12.3877 shares of Common Stock per each \$1,000 principal amount of surplus notes. The Company’s obligations under the surplus notes are now satisfied. The shares were issued in reliance upon the exemption from registration under Section 4(a)(2) of the Securities Act for an issuance not involving a public offering.

(c) The following table provides information about purchases by the Company during the three months ended September 30, 2019, of its Common Stock:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Approximate Dollar Value of Shares that May Yet Be Purchased under the Program(2)
July 1, 2019 through July 31, 2019	1,642,397	\$ 101.82	1,636,814	
August 1, 2019 through August 31, 2019	2,019,082	\$ 82.74	2,014,236	
September 1, 2019 through September 30, 2019	7,669,673	\$ 86.99	7,663,722	
Total	11,331,152	\$ 88.38	11,314,772	\$ 500,000,000

(1) Includes shares of Common Stock withheld from participants for income tax withholding purposes whose shares of restricted stock units vested during the period. Such restricted stock units were originally issued to participants pursuant to the Prudential Financial Inc. Omnibus Incentive Plan.

(2) In December 2018, Prudential Financial’s Board of Directors authorized the Company to repurchase, at management’s discretion, up to \$2.0 billion of its outstanding Common Stock during the period from January 1, 2019 through December 31, 2019. In September 2019, the Board of Directors authorized a \$500 million increase to this authorization for calendar year 2019. As a result, the Company’s aggregate share repurchase authorization for calendar year 2019 is \$2.5 billion.

ITEM 6. EXHIBITS

EXHIBIT INDEX

<u>2.1</u>	<u>Agreement and Plan of Merger, dated September 4, 2019, among Prudential Financial, Inc., Rain Merger Sub, LLC, Assurance IQ, Inc. and the other parties listed in the Agreement. Incorporated by reference to Exhibit 2.1 to the Registrant's September 5, 2019 Current Report on Form 8-K.</u>
<u>2.2</u>	<u>Amendment No. 1 to the Agreement and Plan of Merger, dated October 10, 2019, among Prudential Financial, Inc., Rain Merger Sub, LLC, Assurance IQ, Inc. and the other parties listed in the Agreement.</u>
<u>10.1</u>	<u>Prudential Severance Plan, Amended and Restated as of October 10, 2019.</u>
<u>31.1</u>	<u>Section 302 Certification of the Chief Executive Officer.</u>
<u>31.2</u>	<u>Section 302 Certification of the Chief Financial Officer.</u>
<u>32.1</u>	<u>Section 906 Certification of the Chief Executive Officer.</u>
<u>32.2</u>	<u>Section 906 Certification of the Chief Financial Officer.</u>
101.INS - XBRL	Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

Prudential Financial, Inc. will furnish upon request a copy of any exhibit listed above upon the payment of a reasonable fee covering the expense of furnishing the copy. Requests should be directed to:

Shareholder Services
Prudential Financial, Inc.
751 Broad Street, 21st Floor
Newark, New Jersey 07102

GLOSSARY

Throughout this Quarterly Report on Form 10-Q, the Company may use certain abbreviations, acronyms and terms which are defined below.

Prudential Entities

Company	Prudential Financial, Inc. and its subsidiaries	Pruco Life	Pruco Life Insurance Company
PALAC	Prudential Annuities Life Assurance Corporation	Prudential	Prudential Financial, Inc. and its subsidiaries
PFI	Prudential Financial, Inc. and its subsidiaries	Prudential Financial	Prudential Financial, Inc.
PGFL	Prudential Gibraltar Financial Life Insurance Co., Ltd.	Prudential Funding	Prudential Funding, LLC
PLIC	Prudential Legacy Insurance Company of New Jersey	Prudential Insurance/PICA	The Prudential Insurance Company of America
PLNJ	Pruco Life Insurance Company of New Jersey	Prudential of Japan	The Prudential Life Insurance Company, Ltd.
POA	Prudential of Argentina	Registrant	Prudential Financial, Inc.
PRIAC	Prudential Retirement Insurance and Annuity Company		

Defined Terms

Assurance	Assurance IQ, Inc.	Morningstar	Morningstar, Inc.
Board	Prudential Financial's Board of Directors	Other Postretirement Benefits	Certain health care and life insurance benefits provided by the Company for retired employees, their beneficiaries and covered dependents
Closed Block	Certain in-force traditional domestic participating insurance and annuity products and corresponding assets that are used for the payment of benefits and policyholders' dividends on these products	Pension Benefits	Funded and non-funded non-contributory defined benefit pension plans which cover substantially all of the Company's employees
Exchange Act	The Securities Exchange Act of 1934	PGIM	The Global Investment Management Businesses of Prudential Financial, Inc.
Fitch	Fitch Ratings Inc.	Regulation XXX	Valuation of Life Insurance Policies Model Regulation
Guideline AXXX	The Application of the Valuation of Life Insurance Policies Model Regulation	S&P	Standard & Poor's Rating Services
Moody's	Moody's Investor Service, Inc.	U.S. GAAP	Generally accepted accounting principles in the United States of America

Acronyms

ALM	Asset Liability Management	LPs/LLCs	Limited Partnerships and Limited Liability Companies
AOCI	Accumulated Other Comprehensive Income (Loss)	MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
ASU	Accounting Standards Update	NAIC	National Association of Insurance Commissioners
AUD	Australian Dollar	NAV	Net Asset Value
bps	Basis Points	NJDOBI	New Jersey Department of Banking and Insurance
DAC	Deferred Policy Acquisition Costs	NPR	Non-Performance Risk
DOL	U.S. Department of Labor	OCI	Other Comprehensive Income (Loss)
DSI	Deferred Sales Inducements	OTC	Over-The-Counter
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization	OTTI	Other-Than-Temporary Impairments
FASB	Financial Accounting Standards Board	RAF	Risk Appetite Framework
FSA	Financial Services Agency (an agency of the Japanese government)	RBC	Risk-Based Capital
GICs	Guaranteed Investment Contracts	SEC	Securities and Exchange Commission
GMAB	Guaranteed Minimum Accumulation Benefits	SVO	Securities Valuation Office
GMDB	Guaranteed Minimum Death Benefits	U.S.	The United States of America
GMIWB	Guaranteed Minimum Income and Withdrawal Benefits	USD	U.S. Dollar
GMWB	Guaranteed Minimum Withdrawal Benefits	VIEs	Variable Interest Entities
HDI	Highest Daily Lifetime Income	VOBA	Value of Business Acquired
LIBOR	London Inter-Bank Offered Rate		

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.

Prudential Financial, Inc.

By: /S/ KENNETH Y. TANJI

Kenneth Y. Tanji
Executive Vice President and Chief Financial Officer
(Authorized signatory and principal financial officer)

Date: November 5, 2019

**AMENDMENT NO. 1 TO
AGREEMENT AND PLAN OF MERGER**

This AMENDMENT NO. 1 TO THE AGREEMENT AND PLAN OF MERGER (this “Amendment”) is made and entered into on October 10, 2019, by and between Prudential Financial, Inc., a New Jersey corporation (“Parent”), Rain Merger Sub, LLC, a Washington limited liability company and wholly owned subsidiary of Parent (“Merger Sub”); Assurance IQ, Inc., a Washington corporation (where applicable, including such entity after its conversion into a limited liability company as contemplated by the Pre-Closing Restructuring, the “Company”); solely in his capacity as the Shareholder Representative, Gulliver Swenson, an individual person; and Michael Paulus and Michael Rowell (each, a “Founder” and together with Parent, Merger Sub and the Shareholder Representative, the “Parties”). Capitalized terms used herein without definition shall have the meanings given to them in the Agreement (as defined below).

WHEREAS, the Parties entered into that certain Agreement and Plan of Merger on September 4, 2019 (as amended, the “Agreement”); and

WHEREAS, in accordance with Section 9.2 of the Agreement, the Parties desire to make an amendment to the Agreement to reflect their mutual understanding and agreement with respect to certain matters.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein, the Parties agree as follows:

ARTICLE I.

Amendment

The definition of “Per Share Earn-Out Payment” in Section 9.17 of the Agreement is hereby amended and restated in its entirety as follows:

“Per Share Earn-Out Payment” means (a) with respect to each former Shareholder, each former holder of Vested Options, each holder of Adjusted Parent Options and each holder of Parent Restricted Units who is not subject to taxation in Canada as a resident of Canada, (i) an amount in cash equal to 25% of the Per Share Earn-Out Value and (ii) an aggregate number of duly authorized, validly issued, fully paid and non-assessable shares of Parent Common Stock equal to the quotient of 75% of the Per Share Earn-Out Value *divided by* the Parent Stock VWAP, or (b) with respect to each former holder of Vested Phantom Share Awards and each holder of Parent Restricted Units who is subject to taxation in Canada as a resident of Canada, an aggregate number of duly authorized, validly issued, fully paid and non-assessable shares of Parent Common Stock equal to the quotient of 100% of the Per Share Earn-Out Value *divided by* the Parent Stock VWAP.

ARTICLE II.

Effect of Amendment; Miscellaneous

2. 1 Continuing Effect of Agreement. Except as expressly amended hereby, all of the terms and provisions of the Agreement shall remain in full force and effect.

2. 2 References to the Agreement. On and after the date of this Amendment, each reference in the Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import, and each reference to the Agreement, including by “thereunder”, “thereof” or words of like import in any document, shall mean and be a reference to the Agreement as amended by this Amendment. Notwithstanding the foregoing, any reference to “the date of this Agreement” or “the date hereof” shall mean September 4, 2019.

2. 3 Incorporation by Reference. The provisions of Article IX (General Provisions) of the Agreement shall apply *mutatis mutandis* to this Amendment and to the Agreement as modified by this Amendment, taken together as a single agreement, as if such provisions were set out in full herein,

IN WITNESS WHEREOF, the Parties have duly executed this Amendment as of the date first above written.

Parent:

PRUDENTIAL FINANCIAL, INC.

By: /s/ Bernard J. Jacob
Name: Bernard J. Jacob
Title: Senior Vice President

Merger Sub:

RAIN MERGER SUB, LLC

By: /s/ Bernard J. Jacob
Name: Bernard J. Jacob
Title: Director

Company:

ASSURANCE IQ, INC.

By: /s/ Michael Rowell
Name: Michael Rowell
Title: Chief Executive Officer

Shareholder Representative:

GULLIVER SWENSON

By: /s/ Gulliver Swenson

Founders:

MICHAEL ROWELL

By: /s/ Michael Rowell

MICHAEL PAULUS

By: /s/ Michael Paulus

PRUDENTIAL SEVERANCE PLAN
(Amended and Restated as of October 10, 2019)

This Amendment and Restatement is made the 10th day of October, 2019, by The Prudential Insurance Company of America (the “Company”) to the Prudential Severance Plan (the “Plan”).

WHEREAS, the Company established the Discretionary Severance Pay Plan effective January 1, 2000, the Prudential Severance Plan for Executives (the “Executive Plan”) effective January 1, 2000, and the Prudential Severance Plan for Senior Executives (the “Senior Executive Plan”) effective June 16, 2000;

WHEREAS, the Executive Plan was subsequently amended and restated as of June 16, 2000;

WHEREAS, the Plan, the Executive Plan and the Senior Executive Plan were later separately amended and restated as of November 1, 2011;

WHEREAS, the Plan, the Executive Plan and the Senior Executive Plan were separately amended by a First Amendment executed on December 11, 2012;

WHEREAS, the Plan, the Executive Plan and the Senior Executive Plan are intended to be, and shall be administered as employee welfare benefit plans as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended; and

WHEREAS, on October 10, 2019, the Company established the 2019 Voluntary Separation Program (the “VSP”) under which any VSP Eligible Employee may apply voluntarily to be considered for participation in the VSP as provided in **Appendix B**;

WHEREAS, the Company desires to amend and restate the Plan, the Executive Plan and the Senior Executive Plan as a single plan effective October 10, 2019, for VSP participants only, who are eligible employees approved to participate in the VSP subject to the terms and provisions of Appendix B, and effective January 1, 2020, for all other eligible employees under the Plan and will hereinafter be referred to as the Prudential Severance Plan or the Plan.

NOW, THEREFORE, the Plan will include the former Executive Plan and the former Senior Executive Plan and is hereby amended and restated effective October 10, 2019 for VSP participants only as described in Appendix B and January 1, 2020, for all other eligible employees under the Plan.

Section 1 - Purpose

1.1 Except as otherwise provided in the Plan, this Plan does not provide severance pay to any terminated Employee as a matter of right, and neither the Company nor any Affiliated Company provides severance pay to terminated Employees as a matter of right.

1.2 Except as otherwise provided in the Plan, whether or not severance pay, if any, is to be paid to a terminated Employee is a matter solely within the discretion of the Company.

1.3 The purpose of this Plan is to define those circumstances under which the Company or other Participating Company may pay severance to Eligible Employees.

Section 2 - Definitions

2.1 "Affiliated Company" means any corporation which is a member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) which includes the Company, any trade or business (whether or not incorporated) which is under common control with the Company (within the meaning of Section 414(c) of the Code), any organization included in the same affiliated service group (within the meaning of Section 414(m) of the Code) as the Company, and any other entity required to be aggregated with the Company pursuant to regulations promulgated under Section 414(o) of the Code. Any such entity shall be treated as an Affiliated Company only for the period while it is a member of the controlled group or considered to be in such common control group.

2.2 "Annual Benefits Base Rate" means the determination of earnings by the Company for an Eligible Employee who is a Sales Professional. This determination will be used for the purpose of establishing an annualized rate of base earnings for the Company's benefit plans and programs and will apply such methodologies as the Company shall specify from time to time in its sole discretion. The Annual Benefits Base Rate will be determined as of the date the Eligible Employee is notified, in writing, of his or her termination of employment from the Company, regardless of the actual termination date.

2.3 "Appeals Committee" means the committee composed of three or more employees, one of whom shall be Chairperson, which shall review and make decisions on all appeals on claims for benefits pursuant to Section 5.3(b) of the Plan. The SVP shall designate the individual who shall be the Chairperson and the Chairperson shall designate the remaining members of the Appeals Committee, provided that no one may be a member of the Appeals Committee if he or she is also a member of the Claims Committee.

The Chairperson may resign by delivering his or her written resignation to the SVP, and the SVP may remove the Chairperson at any time by written notice to the Chairperson. Any member of the Appeals Committee, other than the Chairperson, may resign by delivering his or her written resignation to the Chairperson, and the Chairperson may remove any such member of the Appeals Committee at any time by written notice to such member. Vacancies shall be filled promptly by the SVP or the Chairperson, as applicable.

2.4 "Base Pay" means, for any Eligible Employee employed by a Participating Company either as a regular full-time Employee or regular part-time Employee, regular base pay including shift differential, if any, as of the date of the Eligible Employee's Eligible Termination (or the equivalent thereof as determined by the Company in its sole discretion).

2.5 “Board” means the Board of Directors of the Company.

2.6 “Cause” means the following as determined by the Company in its sole discretion or, with respect to an Eligible Employee who is a grade 04P with a corporate title of Senior Vice President, 03P or 02P at the Company (or the equivalent of each such grade as determined by the Company in its sole discretion), the Board in its sole discretion: dishonesty, fraud or misrepresentation; inability to obtain or retain appropriate licenses; violation of any rule or regulation of any regulatory agency or self-regulatory agency; violation of any policy or rule of the Company or any Affiliated Company; commission of a crime; or any act or omission detrimental to the conduct of the business of the Company or any Affiliated Company.

2.7 “Claims Committee” means the committee composed of three or more employees, one of whom shall be Chairperson, which shall review and make decisions on all claims for benefits pursuant to Section 5.3(a) of the Plan. The SVP shall designate the individual who shall be the Chairperson and the Chairperson shall designate the remaining members of the Claims Committee, provided that no one may be a member of the Claims Committee if he or she is also a member of the Appeals Committee.

The Chairperson may resign by delivering his or her written resignation to the SVP, and the SVP may remove the Chairperson at any time by written notice to the Chairperson. Any member of the Claims Committee, other than the Chairperson, may resign by delivering his or her written resignation to the Chairperson, and the Chairperson may remove any such member of the Claims Committee at any time by written notice to such member. Vacancies shall be filled promptly by the SVP or the Chairperson, as applicable.

2.8 “Code” means the Internal Revenue Code of 1986, as amended.

2.9 “Company” means The Prudential Insurance Company of America.

2.10 “Current Appointment Date” means the most recent date the Employee commenced employment with a Participating Company at the time he or she incurs an Eligible Termination. If such Employee commenced employment with a Participating Company as the result of a transfer from or acquisition of a non-participating subsidiary or affiliate, then Current Appointment Date means the Employee’s most recent hire date with the transferred company or acquired non-participating subsidiary or affiliate. If this date is not available, then service will be based on the adjusted service date as defined in Section 402(e) of The Prudential Traditional Retirement Plan.

2.11 “Eligible Compensation” means, for an Eligible Employee who at the time of the notification of an Eligible Termination:

- (i) Is a grade 18P through 06P at the Company (or the equivalent of each such grade as determined by the Company in its sole discretion), the Eligible Employee’s Base Pay as of the date of the Eligible Termination;
- (ii) Is a Sales Professional, the Eligible Employee’s Annual Benefits Base Rate as of the date of the notification of the Eligible Termination; or
- (iii) Is a grade 05P through 02P at the Company (or the equivalent of each such grade as determined by the Company in its sole discretion), the sum of the following:

- (A) Base Pay as of the date of the Eligible Termination; and
- (B) the total of the most recent three years' annual incentive payments, if any, determined or paid to the Eligible Employee under The Prudential Annual Incentive Plan, as amended (or the equivalent thereof as determined by the Company in its sole discretion) as of the date he or she is provided written notice of the Eligible Termination, divided by three; provided, however, that if the Eligible Employee has been eligible for only one or two such payments during such recent three-year period, the total of such payments shall be divided by one or two, respectively, instead of three; and provided further, however, that if, in any of such years being considered, the Eligible Employee has been eligible to be considered for the payment of such an amount and such amount is determined to be zero under such plan, such zero amount will be counted for the purpose of this calculation.

2.12 "Eligible Employee" means an Employee of a Participating Company who at the time he or she incurs an Eligible Termination is an Employee performing services for a Participating Company (i) in the United States, or (ii) as an Expatriate who is on assignment in a country other than the United States.

2.13 "Eligible Termination" means an Employee's involuntary termination of employment with a Participating Company due to (i) the closing of an office or business location, (ii) a reduction in force, (iii) a downsizing, (iv) the restructuring, reorganization or reengineering of a business group, unit or department, (v) a job elimination, or (vi) such other facts and circumstances as the Company shall determine in its sole discretion (including, but not limited to, an Expatriate who did not have a pre-assignment job with a Participating Company in the United States, and whose assignment has ended whether or not a job is offered in the United States); provided, however, that a termination of employment with a Participating Company for any of the following reasons shall not constitute an Eligible Termination:

- (A) transfer of any Employee to any (1) Affiliated Company, or (2) entity which is controlled by the Company through the ownership of a majority of its voting stock (or other equivalent ownership interest), either directly or indirectly through one or more intermediaries;
- (B) voluntary termination of employment, unless the termination results from:
 - (1) the Employee's participation in a voluntary separation program of a business group, unit or department; or
 - (2) the Employee's rejection of an offer of a new job with the Company, an Affiliated Company or an entity which is controlled by the Company through the ownership of a majority of its voting stock (or other equivalent ownership interest), either directly or indirectly through one or more intermediaries, under circumstances where his or her current job is no longer available (such as, the job was eliminated, the job or its scope was changed significantly, the business location of the job has changed, or, as to an Expatriate, his or her assignment has ended), where
 - (a) the new position has a Base Pay plus 50% of the incentive opportunity range for the annual bonus (or the equivalent thereof as may be determined by the Company in its sole discretion) of less than 80% (or, as to an Expatriate who

did not have a pre-assignment job with a Participating Company in the United States and who is offered localization, such other greater percentage as may be determined by the Company in its sole discretion) of the Base Pay plus 50% of the incentive opportunity range for the annual bonus (or the equivalent thereof as may be determined by the Company in its sole discretion) of the Employee's current job;

OR

(b) the following commuting distance conditions (or such other condition that the Company may apply in its sole discretion from time to time) are met, as determined by the Company in its sole discretion:

- (I) the commuting distance from the center of the Employee's town of residence to the center of town of the new job's location is more than 49 miles; and
- (II) such commuting distance is more than 25 miles farther than the commuting distance from the center of the Employee's town of residence to the center of town of the current job's location or
- (III) the commuting distance from the center of the Employee's town of residence to the center of town of the new job location is 99 miles or more;

provided, however, that as to an Expatriate, this Section 2.13(B)(2)(b) of the Plan shall be administered and interpreted by the Company, in its sole discretion, in accordance with the following general criteria:

- (X) a reassignment job offer within the same non-United States host country to the same position or a different position, at the same business unit or a different business unit, shall generally be subject to the rules in Section 2.13(B)(2)(b)(I), (II) and (III) in the context of the host country, but a reassignment job offer to the same position or a different position in a different non-United States host country shall generally be deemed to have satisfied the requirements of such sections; and
- (Y) a job offer related to a repatriation back to the United States shall be subject to the rules in Section 2.13(B)(2)(b)(I), (II), and (III) as if the Expatriate's town of residence is his or her former, pre-assignment town of residence, and as if the Expatriate's current job location is his or her former, pre-assignment job location; provided, however, that if the Expatriate did not have a pre-assignment job with a Participating Company in the United States, the rules in Section 2.13(B)(2)(b)(I), (II), and (III) shall be applied to such job offer related to a repatriation back to the United States as determined by the Company in its sole discretion;

- (C) voluntary retirement (unless the retirement results from the Employee's participation in a voluntary separation program of a business group, unit or department);
- (D) death;
- (E) Cause;
- (F) inability to perform the basic requirements of his or her position with or without reasonable accommodation due to physical or mental incapacity and after the Employee's short-term disability benefits have expired under the terms of The Prudential Welfare Benefits Plan; or
- (G) failure to return from an approved leave of absence.

Except as otherwise provided in Appendix B of the Plan, Eligible Termination also shall not include an Employee's termination of employment with a Participating Company as a result of a court decree, outsourcing, sale (whether in whole or in part, of stock or assets), merger or other combination, spin-off, reorganization, or liquidation, dissolution or other winding up involving any Participating Company if such Employee receives a job offer from any employer that is involved in such outsourcing, sale, merger or other combination, spin-off, reorganization, or liquidation, dissolution or other winding up.

Notwithstanding anything else herein to the contrary, an Eligible Termination shall not occur for purposes of the Plan unless and until the Eligible Employee has had a "separation from service" within the meaning of Section 409A of the Code, as amended, and the regulations and other guidance promulgated thereunder.

2.14 "Employee" means any individual who is compensated by the Company or an Affiliated Company for services actually rendered as a regular full-time or regular part-time (but not a temporary) common law employee provided, however, that:

- (i) any such employee (A) who is a sales employee covered by the terms of a collective bargaining agreement; (B) who is a non-management sales force employee employed in, or a non-management sales force associate affiliated with Prudential Advisors (or in any successor organizations thereto) and who (I) is in training, pre-production, or (II) has been appointed to sell Company products, including a Financial Professional, Financial Professional Associate, Financial Services Associate (FSA) or Part-Time FSA (or any successor title); (C) who is a marketing assistant employed in Prudential Advisors (or in any successor organizations thereto); or (D) whose grade at the Company or at an Affiliated Company is more senior than the grade of vice chairman (grade 02P) at the Company (or its equivalent as determined by the Company in its sole discretion);
- (ii) any individual who performs services for the Company or an Affiliated Company but is not treated by the Company or the Affiliated Company, as the case may be, at the time of performance of services as an employee for federal tax purposes irrespective of the length of time that the individuals perform or are expected to perform services, and even if individuals are, or may be reclassified by the courts, the Internal Revenue Service or the United States Department of Labor as employees of Prudential;
- (iii) any statutory employee of the Company or an Affiliated Company under Code Section 3121(d)(3)(B); and

(iv) any individual who, prior to or upon commencing employment with the Company or an Affiliated Company, is notified in writing that he or she is excluded from participation in the Plan;

shall not be an Employee (or eligible for benefits) under the Plan, unless the SVP shall otherwise expressly provide in writing (including, without limitation, with effect from and after a specified date).

2.15 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

2.16 “Expatriate” means an Employee of a Participating Company who at the time he or she incurs an Eligible Termination is designated by such Participating Company as being on assignment as a United States expatriate on behalf of such Participating Company.

2.17 “Participating Company” means (a) the Company or (b) any U.S. Affiliated Company that (i) participates in the Prudential Retirement Plan, or (ii) adopts the Plan by action of its own board of directors (or if the Affiliated Company does not have a board of directors, by other appropriate action), with the consent of the Company.

2.18 “Plan” means this Prudential Severance Plan effective October 10, 2019, limited to VSP Participants only who satisfy the terms and provisions of Appendix B, and effective January 1, 2020 for all other Eligible Employees under the Plan as amended from time to time thereafter.

2.19 “Prudential Retirement Plan” means The Prudential Traditional Retirement Plan Document or the Prudential Cash Balance Pension Plan Document, two components of The Prudential Merged Retirement Plan, as amended, but not including the Prudential Securities Incorporated Cash Balance Pension Plan Document, a component of The Prudential Merged Retirement Plan.

2.20 “Sales Professional” means an Employee, who is a grade AMS, DMS, LMS, NPS, PRD, 200, 770, 790 or any equivalent job grade as determined by the Company in its sole discretion, who is actively performing the duties of such role at the Company’s place of business or at any other place the Company requires the Employee to perform services.

2.21 “Separation Agreement and General Release” means a written document that includes a release of rights and claims from an Eligible Employee in a form that is satisfactory to, and approved by, the Company. The Separation Agreement and General Release may include, among other things: (i) non-competition and/or non-solicitation provisions; (ii) a waiver and release (and covenant not to sue) of any and all claims, including claims arising from the Eligible Employee’s employment and/or separation from employment with the Participating Company except as limited and/or prohibited by applicable law; (iii) nondisclosure and confidentiality provisions; and (iv) non-disparagement provisions.

2.22 “Severance Pay” means the amount, if any, payable under Section 4 of the Plan to an Eligible Employee.

2.23 “Short-Term Deferral Recipient” means any Eligible Employee (i) who, at the time he or she incurs an Eligible Termination, has attained one of the following grades at the Company (or the equivalent of such grade as determined by the Company in its sole discretion for this purpose): 05P, 04P, 03P or 02P; or (ii)(A) who is eligible to receive benefits under this Plan and (B) whose Base Pay or Annual Benefits Base Rate, as applicable, at the beginning of the calendar year in which the Eligible Termination occurs exceeds the quotient of (x) the maximum amount of severance benefits that can be exempt from Section 409A of the Code by reason of Treas. Reg. §1.409A-1(b)(9) divided by (y) 1.5 (or such other factor as shall be determined by the Company in its sole discretion, prior to the commencement of the applicable calendar year).

2.24 “SVP” means the most senior Vice President responsible for corporate Human Resources of the Company, or the successor to his or her duties relating to corporate Human Resources.

2.25 “Week of Eligible Compensation” means one fifty-second (1/52) of the Eligible Employee’s Eligible Compensation.

Section 3 - Grant of Severance Pay

3.1 As to each Eligible Employee who has an Eligible Termination as defined in Section 2.13(i), (ii), (iii), (iv) or (v), Severance Pay will be granted to such Eligible Employee in an amount determined in accordance with Section 4.1 of the Plan.

3.2 The determination of whether any Additional Discretionary Amount of Severance Pay to any Eligible Employee (or category or group of Eligible Employees as defined by the Company) in grades 05P to 02P will be granted as described under Section 4.1(ii)(B) who has an Eligible Termination as defined in Section 2.13(i), (ii), (iii), (iv) or (v), or the determination of whether a Discretionary Amount of Severance Pay will be granted as described under Section 4.2 to any Eligible Employee (or category or group of Eligible Employees as defined by the Company) who has an Eligible Termination as defined in Section 2.13(vi) shall be made in the sole discretion of the Company; provided, however, that as to an Eligible Employee who is a grade 04P with a corporate title of Senior Vice President, 03P or 02P at the Company (or the equivalent of each such grade as determined by the Company in its sole discretion) at the time of the Eligible Termination, in the event that the Board has reserved this discretion to itself by means of a written resolution, such determination shall be made in the sole discretion of the Board.

3.3 Separation Agreement and General Release. Any Severance Pay payable to an Eligible Employee under the Plan shall be conditioned upon the Eligible Employee signing a Separation Agreement and General Release (and not exercising his or her right of revocation under the Separation Agreement and General Release) within such period of time as the Company shall require, in its sole discretion, but in no event later than (i) in the case of any Eligible Employee other than a Short-Term Deferral Recipient, December 15 of the second calendar year following the occurrence of his or her Eligible Termination and (ii) in the case of any Short-Term Deferral Recipient, March 1 of the calendar year following the occurrence of his or her Eligible Termination. Any grant of Severance Pay shall be null and void upon an Eligible Employee’s failure to sign, or subsequent revocation of, such Separation Agreement and General Release. Any breach by an Eligible Employee of a term or provision in a Separation Agreement and General Release upon which any grant of Severance Pay has been conditioned shall give the Company the right to terminate any payment otherwise due and/or demand the return of such Severance Pay, in addition to any other remedy the Company may have.

Section 4 - Determination of Amount of Severance Pay

4.1 Scheduled Amount of Severance Pay.

(i) **Amount of Severance Pay.** Except as otherwise provided in Section 4.3 of the Plan, as to each Eligible Employee who has an Eligible Termination as defined in Section 2.13(i), (ii), (iii), (iv) or (v), Severance Pay will be granted to such Eligible Employee in an amount equal to the product of the Eligible Employee's Eligible Compensation and the number of weeks determined in accordance with the schedule in Appendix A of the Plan (with the result rounded up to the next higher \$100 increment, unless the result is already a multiple of \$100).

(ii) **Minimum Amount of Severance Pay.** Except as otherwise provided in Section 4.3 of the Plan, if the total amount of Severance Pay determined under Section 4.1(ii)(A) and Section 4.1(ii)(B) of the Plan exceeds the amount of Severance Pay otherwise determined under Section 4.1 of the Plan, such greater amount shall be payable to the Eligible Employee.

- (A) **Under the Schedule.** As to each Eligible Employee who has an Eligible Termination, Severance Pay will be granted to such Eligible Employee in an amount equal to the product of the Eligible Employee's Week of Eligible Compensation and the number of weeks determined in accordance with the following schedule (with the result rounded up to the next higher \$100 increment, unless the result is already a multiple of \$100):

GRADE AT THE COMPANY (OR ITS EQUIVALENT)	<u>NUMBER OF WEEKS</u>
Grades 07A, 07P and 08P	26
Grade 06P	39
Grades 05P, 04P, 03P and 02P	52

- (B) **Additional Discretionary Amount for Grades 05P to 02P.** As to each Eligible Employee who is a grade 05P, 04P, 03P or 02P at the Company (or the equivalent of each such grade as determined by the Board, as applicable, in its sole discretion) and who has an Eligible Termination as defined in Section 2.13(i), (ii), (iii), (iv) or (v), the Company shall determine, in its sole discretion, the amount of Severance Pay, if any, in addition to that provided under Section 4.1(ii)(A) of the Plan that shall be granted, subject to the following limitation: such additional Severance Pay shall not exceed the product of the Eligible Employee's Week of Eligible Compensation or Annual Benefits Base Rate, as the case may be, and 26 (with the result rounded up to the next higher \$100 increment, unless the result is already a multiple of \$100); provided, however, that as to an Eligible Employee who is a grade 04P with a corporate title of Senior Vice President, 03P or 02P at the Company (or the equivalent of each such grade as determined by the Company in its sole discretion) at the time of the Eligible Termination, in the event that the Board has reserved this discretion to itself by means of a written resolution, such determination shall be made in the sole discretion of the Board.

4.2 Discretionary Amount of Severance Pay. Except as otherwise provided in Section 4.3 of the Plan, as to each Eligible Employee who has an Eligible Termination as defined in Section 2.13(vi) of the Plan, the Company shall determine, in its sole discretion, the amount of Severance Pay, if any, that shall be granted to an Eligible Employee; provided, however, that as to an Eligible Employee who is a grade 04P with a corporate title of Senior Vice President, 03P or 02P at the Company (or the equivalent of each such grade as determined by the Company in its sole discretion) at the time of the Eligible Termination, in the event that the Board has reserved this discretion to itself by means of a written resolution, such determination shall be made in the sole discretion of the Board.

4.3 Offsets and Maximum Amount of Severance Pay. Any Severance Pay payable under this Plan shall be reduced (with the result rounded up to the next higher \$100 increment, unless the result is already a multiple of \$100) by any separation or other similar benefits of any kind from the Company or any Affiliated Company or any plan or program sponsored by the Company or any Affiliated Company (including, but not limited to, any separation provisions under an employment agreement and/or an offer letter), and any separation or other similar benefits of any kind from the Company or any Affiliated Company that may be required or provided for under applicable United States Federal, state or local law, or foreign law for the same termination of employment, as determined by the Company in its sole discretion; provided, however, that any such reduction will not be made more than once under the Plan and under any other separation or other similar benefits of any kind from the Company or any Affiliated Company or any plan or program sponsored by the Company or any Affiliated Company (including, but not limited to, the Prudential Severance Plan and any separation provisions under an employment agreement and/or an offer letter), as determined by the Company in its sole discretion.

Notwithstanding anything in the Plan to the contrary, in no event, however, may the Severance Pay granted to any Eligible Employee under the Plan (and under any other plan or program of the Company and/or a Participating Company that provides severance benefits, as determined by the Company in its sole discretion) for a given Eligible Termination exceed the maximum permitted for employee welfare benefit plans such as the Plan under Section 2510.3-2(b)(1)(ii) of Title 29 of the Code of Federal Regulations (or any successor thereto).

4.4 Reductions of Severance Pay. Subject to applicable law, any Severance Pay which the Company may grant to an Eligible Employee may, in the sole discretion of the Company, be reduced by any amounts owed by the Eligible Employee to the Company or the Participating Company, including, but not limited to, those that relate to an Expatriate's assignment. The Eligible Employee's right to receive such Severance Pay is conditioned upon his or her agreement to execute any documents deemed necessary or appropriate by the Company to reduce the Severance Pay by any such amounts owed.

4.5 Repayment of Severance Pay upon Rehire. If an Eligible Employee who has incurred an Eligible Termination and been granted Severance Pay is rehired by any Participating Company or Affiliated Company, the payment of Severance Pay shall terminate immediately on the date of such rehire; however, the Company will not require the Eligible Employee to return any amounts of Severance Pay that have been paid to the Eligible Employee for a prior period of employment that occurred before the Eligible Employee's Current Appointment Date.

4.6 Form of Payment of Severance Pay, and Taxes. Except with respect to any Short-Term Deferral Recipient, the Plan is a separation pay plan that satisfies the requirements of Treas. Reg. §1.409A-1(b)(9), and the benefits payable hereunder shall be exempt from Section 409A of the Code pursuant to such provision of such regulations. Payment of any Severance Pay will be made in a lump sum as soon as practicable after the date of the Eligible Employee's Eligible Termination, but not sooner than after receipt by the Company of a fully executed Separation Agreement and General Release and the exhaustion of any revocation period thereunder. In all events, payments to any Eligible Employee other than a Short-Term Deferral Recipient shall be made by the end of the second calendar year following the year in which the Eligible Employee's Eligible Termination occurs. In the case of any Short-Term Deferral Recipient, payments hereunder shall be made not later than the March 15th following the year in which the Short-Term Deferral Recipient's Eligible Termination occurs. The Participating Company shall withhold from any payments made pursuant to the Plan such amounts as may be required by United States Federal, state, local or foreign law.

Section 5 - Interpretation and Administration

5.1 The Claims Committee shall administer the Plan (except as otherwise provided in the Plan). The Company and/or the Claims Committee, as the case may be, shall maintain such procedures and records as each deems necessary or appropriate. The plan year for keeping the records of the Plan shall be the calendar year. Notwithstanding anything in the Plan to the contrary, whenever the Company takes any action under the Plan, it shall do so as an exercise of a settlor function and shall not be acting as a fiduciary.

5.2 The Claims Committee, which shall be the Plan administrator, shall have the exclusive right, power and authority to interpret, in its sole discretion, any and all provisions of the Plan; and to consider and decide conclusively any questions (whether of fact or otherwise) arising in connection with the administration of the Plan or any claim for Severance Pay arising under the Plan. Any decision or action of the Company or the Claims Committee, as the case may be, shall be conclusive and binding.

5.3 (a) Claims. All inquiries and claims respecting the Plan shall be in writing from the claimant, or his or her authorized representative, and directed to the Claims Committee at such address as may be specified from time to time. The Claims Committee shall treat any writing that is identified as a claim for benefits as a claim under these claims and appeals procedures, and may treat any other writing or communication received by the Claims Committee as a claim under these procedures, even if the writing or communication is not identified as a claim for benefits. The Claims Committee shall provide to each claimant a notice acknowledging its receipt of a communication that the Claims Committee considers a claim for benefits. If a claimant does not receive such acknowledgment within 60 days after making a claim, the individual should contact the Claims Committee to determine that the claim has been received and identified as a claim for benefits. In accordance with Section 5.4 of the Plan, the Claims Committee may appoint itself, one or more of its number, or any other person or persons whether or not connected with the Company to hear claims. A written determination granting or denying the claim shall be furnished to the claimant within 90 days of the date on which the claim is filed (the "determination date"). If special circumstances require a longer period, the claimant will be notified in writing, prior to the expiration of the 90-day period, of the expected decision date and the reasons for an extension of time; provided, however, that no extensions will be permitted beyond 90 days after expiration of the initial 90-day period. A denial or partial denial of a claim shall be dated and signed by the Claims Committee and shall clearly set forth the following information:

- (i) the specific reason or reasons for the denial;
- (ii) specific reference to pertinent Plan provisions on which the denial is based;
- (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (iv) an explanation of the procedure set forth in Section 5.3(b) of the Plan for review of the claim denial and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under ERISA Section 502(a) following a denial on review.

A claim should be considered approved only if approval is communicated to the claimant in writing. If a claimant does not receive a response to a claim within the applicable time period, the claimant may proceed with an appeal under the procedures described in Section 5.3(b) of the Plan.

(b) Appeals. A claimant may obtain review of a claim denial by filing a written notice of appeal with the Appeals Committee within sixty (60) days after the determination date or, if later, within sixty (60) days after the receipt of a written notice denying the claim (or, if the claimant has not received a response to the initial claim, within 150 days of the filing of the initial claim). The notice of appeal should include all information not previously submitted that the claimant wants to be considered in connection with the claim. Upon receipt of a notice of appeal, the Appeals Committee shall appoint one or more persons in accordance with Section 5.4 of the Plan who shall conduct a full and fair review, which shall include the appellant's right:

- (i) to present a written statement of facts, comments, documents, records, and other information relating to the claim;
- (ii) to be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim;
- (iii) to a review that takes into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial claim determination; and
- (iv) to receive a prompt written notification of the determination on review, which, in the case of a claim denial, clearly sets forth, in a manner calculated to be understood by the claimant, the following:
 - (A) specific reasons for the denial and containing references to the specific Plan provisions on which the decision is based;
 - (B) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim; and
 - (C) a statement of the claimant's right to bring an action under section 502(a) of ERISA and a description of the applicable limitations period under the Plan.

A decision shall be rendered no more than sixty (60) days after receipt of the request for review, except that such period may be extended for an additional sixty (60) days if the person or persons reviewing the appeal determine that special circumstances require such extension and provide notice within the initial 60-day period of such extension and circumstances, and the date a decision is expected. The Appeals Committee may appoint itself, one or more of its members, or any other person or persons whether or not connected with the Company to review an appeal, in accordance with Section 5.4 of the Plan.

(c) Claimants must follow the claims procedures described in Sections 5.3(a) and 5.3(b) of the Plan before taking action in any other forum regarding a claim under the Plan. Any other claims that arise under or in connection with Plan, even though not claims for benefits, must be filed with the Claims Committee and will be considered in accordance with these claims and appeals procedures.

Any suit or legal action initiated by a claimant under the Plan must be brought by the claimant no later than one year following a final decision on the claim by the Claims Committee (including the decision on any appeal of the claim by the Appeals Committee). In addition, any suit or legal action will be subject to a 2-year limitation period measured from the date the claim arose (provided that this 2-year limitation period will be tolled during the review and appeal of a claim under these procedures). A claim will be presumed to have arisen when a claimant has actual or constructive notice of the events giving rise to the claim. The applicable limitation period on suits shall apply in any forum where a claimant initiates such suit or legal action.

(d) If a claimant has been denied benefits under the Plan in connection with the termination of his employment, but is subsequently determined to be entitled to such benefits after the date at which the release required under Section 3.3 is due (or at such earlier date as may be established by the Claims Committee), then notwithstanding Section 3.3 or Section 4.6 hereof, such Claimant shall have sixty days from the date that such benefits are determined to be payable (or such longer period as is required at law or by any applicable judicial or administrative order) to execute and deliver such a release, and such benefits shall be paid, subject to the execution and non-revocation of such release, in a single lump sum payment on or before the earlier of (i) 30 days following the execution and delivery of such release or (ii) 75 days following the end of the calendar year in which the claimant is determined to be entitled to benefits hereunder.

(e) Hearing. No claimant shall be entitled to a hearing to consider matters raised in a claim or appeal.

5.4 The Company pursuant to action by the SVP, the Claims Committee and the Appeals Committee shall each have the power to delegate their respective responsibilities under the Plan to one or more of its members or officers, as the case may be, or to employees or to other individuals or organizations, as the case may be, by notifying them as to the duties and responsibilities delegated. Each person to whom responsibilities are so delegated shall serve at the pleasure of the entity or person making the delegation and, if an Employee, without payment of additional compensation for such services. Any such person may resign by delivering a written resignation to the entity or person that made the delegation. Vacancies created by resignation, death or other cause may be filled by the entity or person that made the delegation or the assigned responsibility may be reassumed or redelegated by such entity or person.

Section 6 - Amendment and Termination

6.1 The Company shall have the right to amend or terminate the Plan in any respect and at any time without notice, and may do so pursuant to a written resolution of the Compensation Committee of the Board.

6.2 The SVP or the Company's delegate or delegates appointed by such officer in accordance with Section 5.4 of the Plan may, without approval of the Compensation Committee of the Board, adopt the following: (a) minor amendments to the Plan that (i) are necessary or advisable for purposes of compliance with applicable laws and regulations, (ii) relate to administrative practices, or (iii) have an insubstantial financial effect on Plan benefits and expenses; and (b) amendments to the provisions of the Plan that relate to eligibility and Eligible Terminations, provided that each such amendment is deemed by him or her to be necessary or advisable based on a review of the relevant facts and circumstances and is consistent with the purposes of the Plan.

Section 7 - General Provisions

7.1 Eligible Employee's Rights Unsecured and Unfunded. The Plan at all times shall be entirely unfunded. No assets of any Participating Company shall be segregated or earmarked to represent the liability for benefits under the Plan. The right of an Eligible Employee to receive a payment hereunder shall be an unsecured claim against the general assets of the Participating Company that was the employer of such Eligible Employee. All payments under the Plan shall be made from the general assets of the Participating Company that was the most recent employer of the Eligible Employee.

7.2 No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guarantee by a Participating Company or any other person or entity that the assets of the Participating Company will be sufficient to pay any benefit hereunder.

7.3 No Enlargement of Employee Rights. The existence of this Plan or any payment of Severance Pay under the Plan shall not be deemed to constitute a contract of employment between the Company or an Affiliated Company and any Eligible Employee, nor shall it constitute a right to remain in the employ of the Company or an Affiliated Company. Employment with the Company or an Affiliated Company is employment-at-will and either party may terminate the Employee's employment at any time, for any reason, with or without cause or notice.

7.4 Non-Alienation Provision. Except as set forth in Section 4.4 of the Plan, and subject to the provisions of applicable law, no interest of any person or entity in, or right to receive a benefit or distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

7.5 Applicable Law. The Plan shall be construed and administered under the laws of the State of New Jersey, except to the extent that such laws are preempted by ERISA.

7.6 Excess Payments. If compensation, years of service or any other relevant fact relating to any person is found to have been misstated, the Plan benefit payable by the Participating Company to an Eligible Employee shall be the Plan benefit that would have been provided on the basis of the correct information. Any excess payments due to such misstatement, or due to any other mistake of fact or law, shall be refunded to the Participating Company or withheld by it from any further amounts otherwise payable under the Plan.

7.7 Impact on Other Benefits. Amounts paid under the Plan shall not be included in an Eligible Employee's compensation for purposes of calculating benefits under any other plan, program or

arrangement sponsored by the Company or a Participating Company, unless such plan, program or arrangement expressly provides that amounts paid under the Plan shall be included.

7.8 Usage of Terms and Headings. Words in the masculine gender shall include the feminine and the singular shall include the plural, and vice versa, unless qualified by the context. Any headings are included for ease of reference only, and are not to be construed to alter the terms of the Plan.

7.9 Supersession. The Plan supersedes all statements, practices or policies, if any, with respect to providing severance benefits to any Employee in Grades 18P to 06P (or the equivalent of each such grade as determined by the Company in its sole discretion) whose employment terminates on or after January 1, 2000, and to any Employee in Grades 05P to 02P (or the equivalent of each such grade as determined by the Company in its sole discretion) whose employment terminates on or after June 16, 2000.

7.10 Effective Date. The Plan as restated and amended shall be effective on October 10, 2019, limited to VSP participants only pursuant to the terms and provisions of Appendix B, and, on or after January 1, 2000, as to Eligible Terminations that occur on or after January 1, 2020, provided, however, that the Eligible Employee is also notified of his Eligible Termination on or after January 1, 2020.

Appendix A - Schedule under Section 4.1 of the Prudential Severance Plan

<u>YEARS OF SERVICE*</u>	<u>NUMBER OF WEEKS</u>
1 OR LESS	6
2	6
3	9
4	12
5	15
6	18
7	21
8	24
9	27
10	30
11	33
12	36
13	39
14	42
15	45
16	48
17	51
18	54
19	57
20	60
21	63
22	66
23	69
24	72
25	75
26 OR MORE	78

***Service is based on Current Appointment Date as defined in Section 2.10, and rounded up to the next full year of service.**

Appendix B - Special Rules Regarding Certain Terminations of Employment

2019 Voluntary Separation Program

The Company has established the 2019 Voluntary Separation Program (the “**VSP**”) under which any VSP Eligible Employee may apply voluntarily to be considered for participation in the VSP (each, an “**Applying Employee**”) by applying in the form specified by Corporate Human Resources (the “**Application Form**”) during the application period commencing on October 10, 2019 and ending on November 8, 2019 (the “**Window Period**”). A “**VSP Eligible Employee**” shall mean any employee of the Company or any of its affiliates or any other subsidiary of Prudential Financial, Inc. (collectively, “**Prudential**”) (i) most recently employed by Prudential before January 1, 2018; (ii) actively employed as full-or part-time on October 10, 2019, and was not notified of an involuntary termination of employment before October 10, 2019; (iii) whose principal place of employment is in the United States; (iv) whose title is below that of Senior Vice President; (v) who is eligible to receive benefits under the Plan; (vi) whose department or business unit is participating in the VSP and (vii) who is in a job category or job classification identified by his or her participating department or business unit as eligible to elect to be considered for participation in the VSP, with such eligibility criteria for each department or business unit participating in the VSP set forth on the Annex to this Appendix B. The following employees will be considered to be actively employed for purposes of satisfying the eligibility requirements in regard to the VSP:

1. Full-and part-time employees who are actively performing job duties;
2. Employees on PTO;
3. Employees on all approved leaves (parental or general leave, or Family Medical Leave Act (FMLA));
4. Employees on military leave;
5. Employees on Short Term Disability under The Prudential Welfare Benefits Plan; or
6. Employees on Long Term Disability under The Prudential Welfare Benefits Plan with an accommodation leave.

If an Applying Employee does not revoke his or her application during the revocation period (November 9, 2019 through November 15, 2019) and is selected for participation in the VSP (a “**VSP Participant**”), he or she agrees that he or she will terminate his or her employment with Prudential on the date specified by the Company and otherwise in accordance with the requirements of the VSP (including, but not limited to, the requirement that such Applying Employee remain employed through and terminate employment at the date specified by the Company), in which case such VSP Participant’s termination of employment shall be deemed to be an Eligible Termination under the Plan. The date as of which a VSP Participant shall be expected to terminate his or her employment shall be set forth in writing at the time that the Company notifies any Applying Employee that he or she has been accepted as a VSP Participant. The Company shall inform an Applying Employee whether he or she has been selected as a VSP Participant on or before December 19, 2019.

In addition, any employee of Prudential (i) who was informed on or after August 1, 2019, and prior to the first day of the Window Period by Prudential that his or her employment was being involuntarily terminated in an Eligible Termination under the Plan and (ii) whose employment terminates on or after February 19, 2020, and before October 1, 2020, and (iii) who would otherwise have qualified as a VSP Eligible Employee, shall be deemed to be a VSP Participant and will be entitled to receive the benefits under the VSP, to the extent such benefits are greater than the benefits that would otherwise be made available to such employee under the Plan or otherwise in connection with such involuntary termination.

Upon an Eligible Termination by a VSP Participant in accordance with the provisions of the VSP, such VSP Participant shall be entitled to receive the benefits payable in accordance with the terms of the Plan and, to the extent such VSP Participant is eligible, the enhanced or supplemented set forth below. For clarity and avoidance of doubt, the enhanced or supplemental benefits described in this Appendix B shall be provided or paid to the VSP Participant under the applicable plan or program.

1. *Enhanced Minimum Severance for VSP Participants in Grades 9P-18P or Equivalent:* Regardless of the otherwise applicable provisions of the Plan, the minimum number of weeks during which severance benefits shall be payable to any VSP Participant in Grades 9P-18P or equivalent, inclusive, shall be 13 weeks;
2. *Enhanced COBRA Subsidy for VSP Participants with Less than 10 Years of Service:* Regardless of the otherwise applicable provisions of The Prudential Welfare Benefits Plan or corresponding Human Resources policy, each VSP Participant, regardless of his or her number of years of completed service at the date of termination, shall be entitled to receive subsidized COBRA on the same basis as such subsidies are generally provided under such welfare plan or policy, as applicable, for a period of 12 months (or, if less, the period during which such VSP Participant remains eligible for COBRA continuation coverage);
3. *Enhanced Vesting and Payment of LTIP and AIA for any VSP Participant Who Is Not Retirement Eligible:* Regardless of the otherwise applicable provisions of the Prudential Financial, Inc. 2016 Omnibus Incentive Plan and the Prudential Financial, Inc. Compensation Plan and their attendant programs and award documents, each VSP Participant whose employment terminates in accordance with the provisions of the VSP prior to the time at which such person would qualify for retiree treatment under (i) any long-term incentive plan, including, without limitation, the Prudential Financial, Inc. 2016 Omnibus Incentive Plan (each, an “**LTIP**”) or (ii) any applicable annual incentive award plan or program (an “**AIA**”) shall be entitled to (x) vest on a pro-rated basis in each award held by such VSP Participant under any such LTIP on the VSP Participant’s date of termination in the same manner as would apply under the applicable terms and conditions of such LTIP to an individual whose employment is involuntarily terminated without cause, and (y) subject to such VSP Participant’s performing his or her job duties through the end of March in the year of his or her termination of employment, a pro-rated payment under any such AIA in which such VSP Participant is eligible to participate in the year of termination, determined and payable in the same manner as would apply under the applicable terms and conditions of such AIA to an individual whose employment is involuntarily terminated without cause;
4. *RMSA for VSP Participants within Five (5) Years of Eligibility.* Regardless of the otherwise applicable provisions of The Prudential Retiree Welfare Benefits Plan (hereinafter referred to as the “**Welfare Benefits Plan**”), any VSP Participant who, if he or she continued in Prudential’s employment through the fifth anniversary of the end of the VSP period (that is October 1, 2025) would have become eligible for his or her Retiree Medical Savings Account (“**RMSA**”) by having satisfied the age and service requirements necessary to be a “Retiree” (as such term is defined under the Welfare Benefits Plan, and including any applicable bridging to retirement eligibility as provided in Section 5 below) shall be deemed to be eligible for the RMSA upon the date of such VSP Participant’s employment termination in accordance with the terms and conditions of the RMSA;
5. *Bridging to Retirement Eligibility for VSP Participants during VSP Period.* Regardless of the otherwise applicable provisions of Prudential’s incentive, pension or welfare benefit plans, any VSP Participant who, if he or she had continued in Prudential’s employment through the end of

the VSP period (that is October 1, 2020) and incurred an involuntary termination of employment at that time such that the VSP Participant would have received scheduled severance under the Plan, would have satisfied the age and service requirements necessary to be a “Retired Participant” (as defined under The Prudential Merged Retirement Plan) shall be deemed to be a “Retired Participant” under The Prudential Merged Retirement Plan and a “Retiree” under the Welfare Benefits Plan and entitled to retirement eligible status under Prudential’s incentive, pension or welfare plans, to the extent applicable. A VSP Participant with deemed “Retiree” and retirement eligible status shall receive payments or benefits in accordance with the terms and conditions of the applicable Prudential plans with such payments or benefits determined as of the date of the VSP Participant’s actual employment termination date and made in the time and in the form of payment otherwise determined in accordance with the applicable plans. The bridging rules in this Section 5 are intended to supplement the bridging rules in Section 506 of The Prudential Merged Retirement Plan available to participants whose pension benefits are determined by reference to the Traditional Formula in such plan; accordingly, if applicable, the bridging rules in Section 506 shall be applied to a VSP Participant on October 1, 2020, in lieu of the participant’s actual employment termination date, to the extent necessary to enable such participant to qualify as a “Retired Participant” under The Prudential Merged Retirement Plan and a “Retiree” under the Welfare Benefits Plan and for purposes of having retirement eligible status, to the extent applicable, under the terms and conditions of Prudential’s incentive, pension and welfare plans; and

6. *Outplacement Services.* Regardless of the otherwise applicable provisions of the Company’s outplacement program or corresponding policy, each VSP Participant is eligible to receive outplacement services, with an approved entity or person, the length of time and the level of services as determined by the Company in its sole discretion.
7. *Discretionary Severance.* Regardless of the otherwise applicable provisions of the Plan, if a VSP Participant had a previous termination or terminations of employment with a Participating Company as a result of an outsourcing, sale (whether in whole or in part, of stock or assets), merger or other combination, spin-off, reorganization, or liquidation, dissolution or other winding up involving any Participating Company in which such VSP Participant did not have an Eligible Termination under the Plan, and accordingly did not receive any Severance Pay, then the Company may, in its sole discretion, provide to such VSP Participant, an additional amount of Severance Pay subject to all of the following limitations: (A) such additional Severance Pay shall not exceed the product of the VSP Participant’s Week of Eligible Compensation and 26; and (B) the total Severance Pay payable to the VSP Participant shall not exceed the lesser of either (i) the amount of Severance Pay that would have been payable to the VSP Participant had such amount been determined utilizing Service based on adjusted service date (not Current Appointment Date) as defined in Section 402(e) of The Prudential Traditional Retirement Plan Document, and rounded up to the next full year of service, or (ii) the product of the VSP Participant’s Week of Eligible Compensation and 78.
8. *Effect of Rehire or Reaffiliation.* Regardless of the otherwise applicable provisions of the Plan, if a VSP Participant, any individual who is deemed to be a VSP Participant or an individual who performs services for the Company or Affiliated Company, but is not treated at the time of performance of service as an employee for federal tax purposes, is rehired or reaffiliated, as the case may be, by any Participating Company or Affiliated Company, any outstanding Severance Pay to be made under the Plan pursuant to the VSP shall terminate immediately on the date of such rehire, and the Company may, in its sole discretion, require the VSP Participant to return

any or all amounts of Severance Pay that have been paid to the VSP Participant; provided, however, that in making this decision, the Company, in its sole discretion, may take into consideration any amounts that may be required or provided for under applicable United States Federal, state or local law.

For the avoidance of doubt, each VSP Participant under the VSP who, on the date his or her employment terminates in accordance with the VSP has otherwise qualified for retiree status under the terms and conditions of the applicable plan or program, shall be afforded all rights and entitlements as a retiree in accordance with the terms and conditions of the applicable LTIP, AIA or RMSA, including rights and entitlements with regard to (i) vesting in any outstanding award under any LTIP; (ii) subject to such VSP Participant's performing his or her job duties through the end of March in the year of termination of employment, receipt of a pro-rated payment under an AIA in which such VSP Participant is eligible to participate in the year of termination; and (iii) his or her account balance under the RMSA.

NOTWITHSTANDING ANYTHING ELSE IN THE PLAN OR THE VSP TO THE CONTRARY, NO BENEFITS SHALL BE PAYABLE UNDER THE PLAN OR THIS APPENDIX B TO ANY INDIVIDUAL, INCLUDING ANY VSP PARTICIPANT, WHOSE EMPLOYMENT IS TERMINATED FOR ANY REASON, INCLUDING FOR CAUSE OR FOR POOR PERFORMANCE, AT ANY TIME PRIOR TO THE DATE DESIGNATED BY THE COMPANY FOR HIS OR HER TERMINATION OF EMPLOYMENT AS A VSP PARTICIPANT UNDER THE VSP, UNLESS APPROVED BY THE CLAIMS COMMITTEE OF THE PLAN PRIOR TO SUCH TERMINATION OF EMPLOYMENT.

Any payments or benefits to be provided to a VSP Participant shall be conditioned upon the VSP Participant signing a separation and release agreement (and not exercising his or her right of revocation under such separation and release agreement) in such form and manner and within such period of time as the Company shall determine, in its sole discretion. Any payments or benefits provided under the VSP shall be null and void upon a VSP Participant's failure to sign, or subsequent revocation of, such separation and release agreement. Any breach by a VSP Participant of a separation and release agreement upon which any payment or benefit under the VSP has been conditioned shall give the Company the right to terminate any payment or benefit otherwise due and/or to the return of such payment or benefit (or its cash value), in addition to any other remedy the Company may have.

Any term used in this Appendix B with an initial capital letter but not defined herein shall have the meaning ascribed thereto under the Plan.

Annex to Appendix B

Business Excluded Groups

- Within Individual Solutions Group
 - Employees in internal and external wholesalers roles for Life and Annuities Businesses;
- Within Prudential Annuities
 - Employees who are product Vice Presidents;
- Within Individual Life Insurance
 - Employees who are product Vice Presidents;
- Within Prudential Advisors
 - Financial Professionals and Financial Professional Associates;
 - Part-Time Financial Services Associates (Career Development Program);
 - Marketing Assistants;
- Within Prudential Retirement
 - Employees in Sales and Strategic Relations (SSR) on sales incentive compensation plans (AMS, DMS, LMS);
 - Employees in client-facing Key Account jobs grade 8P and above (in Client Relations & Business Development);
 - Employees in Retirement Plan Strategies (RPS) actuarial consulting;
- Within PGIM
 - Employees in Investment businesses (Fixed Income, Jennison Associates, Private Capital, Global Partners, QMA, Real Estate and Real Estate Finance);
 - Employees in PGIM Center (Marketing, Strategy, Operations & Systems, Institutional Relationship Group and Institutional Advisory & Solutions) and PGIM Investments Sales;
- Within Enabling Solutions
 - Employees in the Future of Work COE (Service Optimization, Transformation Solutions, Business Process Transformation, Customer Communications and Global Delivery Office);
 - Employees who are Vice Presidents in grades 5P or 6P;
- Within Audit Function
 - Employees in a role that is part of the actuarial job family; and
- Within Technology
 - Employees in the Information Security Office.

CERTIFICATIONS

I, Charles F. Lowrey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Prudential Financial, Inc.;
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 subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

/s/ Charles F. Lowrey

Charles F. Lowrey
Chief Executive Officer

CERTIFICATIONS

I, Kenneth Y. Tanji, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Prudential Financial, Inc.;
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 subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

/s/ Kenneth Y. Tanji

Kenneth Y. Tanji
Chief Financial Officer

Certification

Pursuant to 18 U.S.C. § 1350, I, Charles F. Lowrey, Chief Executive Officer of Prudential Financial, Inc. (the “Company”), hereby certify that the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (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.

Date: November 5, 2019

/s/ Charles F. Lowrey

Name: Charles F. Lowrey

Title: 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

Pursuant to 18 U.S.C. § 1350, I, Kenneth Y. Tanji, Chief Financial Officer of Prudential Financial, Inc. (the “Company”), hereby certify that the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (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.

Date: November 5, 2019

/s/ Kenneth Y. Tanji

Name: Kenneth Y. Tanji

Title: 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.