

State of Domicile: New Jersey
Holding Company: Prudential Financial
Type: Stock
Incorporated: 1875

Ratings as of: March 2018
Moody's: A1/Positive
S & P: AA-/Stable
Fitch: AA-/Stable

Prudential Financial Inc. (PRU) is the parent of insurance companies Prudential Insurance Company of America (PICA) and Pruco Life Insurance Company, formed in December 2001 after the firm demutualized and completed an initial public offering of stock. Through its subsidiaries, PRU offers a wide range of insurance, investment management, securities and other financial products and services. PRU has operations in the United States, Asia (mainly Japan), Europe and Latin America. Prudential Insurance Company of America has a leading position in the US life and retirement market, with a top 10 positions in a number of life, retirement and annuity markets. In February 2011, PRU completed its acquisition of two AIG subsidiaries in Japan, Star Life Insurance and Edison Life Insurance Co, for \$4.2 bln plus \$600 mln in assumed debt. The Star/Edison companies have been merged with PRU's existing Japanese operations, Gibraltar, which further increases its market share in the lucrative Japanese insurance industry. Over the past several years, PRU has exited numerous businesses, including group healthcare, P&C insurance, global commodities, real estate and relocation, residential mortgage banking, and investment banking, which had higher business risks or were non-core businesses in which the company lacked a competitive advantage. In July 2012 the company announced its decision to cease sales of group long-term care insurance reflecting the challenging economics of the long-term care market including the continued low interest rate environment. These divestments helped to reduce enterprise risk and to strengthen the company's overall credit profile. PRU has been changing its business mix away from interest sensitive products like long-term care insurance and growing in pensions business. Over the past several years PRU has experienced significant growth in the Pension Risk Transfer (PRT) business having accumulated significant pension account values from a large number of plans in the U.S. and the U.K. Effective October 2017, Prudential re-aligned its five U.S. businesses under three divisions oriented to the needs of specific customers: U.S. Individual Solutions (30% of pre-tax operating earnings) will include Individual Life Insurance and Individual Annuities, U.S. Workplace Solutions (18% of earnings) will include Group Insurance and Retirement and Investment Management (12% of earnings). The fourth division is International Insurance comprising 40% of 2017 pre-tax operating earnings.

Prudential Financial reported solid 4Q17 and FY2017 results with full year pre-tax operating earnings of \$6.7 bn and 2017 operating Return on Equity of 13.9%. After-tax adjusted operating income was \$4.65 bn in 2017 compared to \$4.11 bn in 2016 with strong performance in 2017 across all divisions. U.S. Individual Solutions business reported adjusted pre-tax operating income of \$2.2 bn in 2017 which was higher than in 2016 reflecting solid performance in Annuities driven by higher asset-based fee income, lower amortization costs and higher net investment spread results. U.S. Workplace Solutions division reported adjusted pre-tax operating income of \$1.5 bn, an increase y/y reflecting higher net investment spread results and a higher contribution from reserve experience in Retirement as well as favorable underwriting performance in

Group Insurance. Investment Management posted adjusted pre-tax operating income of \$979 mn, an increase y/y primarily reflecting higher asset management fees, partially offset by higher expenses.

International Insurance reported adjusted pre-tax operating income of \$3.2 bn, up y/y driven by growth of business in force and improved policyholder experience, partially offset by higher expenses.

PRU's general account investment portfolio is well diversified across asset classes, industry sectors, geographic regions and issuers. Risk limits and exposure ranges for the investment portfolio are approved annually by the Investment Committee of the Board of Directors. PRU underwrites their own credit risk through direct originations of commercial mortgages and private placements. As of December 31, 2017 PRU held \$402 bn of general account investments, with 76% allocation to fixed income securities, including 65% in public fixed maturities and 11% in private fixed maturities. 94% of fixed income securities are investment grade and 6% high yield. High yield exposure is weighted towards higher quality and asset-rich sectors, with an emphasis on allocations to private placements with strong covenants and ability to restructure. Higher risk investments include CMBS (2% of fixed income investments; 99.5% rated 'A' or better), ABS (2% of fixed income investments), and commercial mortgage loans (12% of total investments). PRU has substantial insurance operations in Japan with 40% of general account investments relating to the Japanese insurance operations, including 20% of total fixed income investments in Japanese government bonds.

As of 12/31/2017, PRU (including closed block) had total assets of \$832 bn, shareholders' equity of \$54 bn and assets under management of over \$1.1 trln. PRU targets operating capital levels and leverage consistent with AA ratings. At the end of FY17, PRU reported a Risk-Based Capital (RBC) ratio of 410% down from 457% in 2016 due to the impact of tax reform. Solvency Margin Ratio (SMR) at Prudential of Japan and Gibraltar Life were 893% and 935% respectively, well above their target SMR of 700%. During 2017 PRU returned \$2.6 bn to shareholders through dividends and share repurchases while 2018 share repurchase authorization was \$1.5 bn. Financial leverage as measured by debt to capital ratio was at 22%, within the company's 25% target. PRU has made a strong progress in reducing financial, operating and total leverage over the past few years. As of YE2017 PRU had total capital of 47.4 bn, consisting of 75% equity, 14% hybrid capital debt and 11% senior capital debt. PRU maintained a very strong liquidity position with \$4.4 bn of holding company cash, short-term investments and U.S. Treasury fixed maturities as of YE17, well above the company's minimum target of \$1.3 bn. Despite having a relatively large CP program in place, PRU has significantly reduced its use of short-term debt in an effort to better manage assets and liabilities. PRU also uses hedging and sophisticated ALM strategies to keep asset-liability mismatches within reasonable tolerances.

Prudential Insurance Company of America

Prudential maintains a competitive position in its global insurance business and benefits from diverse revenue streams, but partially offsetting these factors is the company's above average exposure to equity market volatility given its large VA, retirement, and asset management businesses. PRU has a strong international presence, robust capital adequacy, solid financial flexibility, and consistently generates good operating profits. The company benefits from a strong competitive position and favorable pricing environment in Japan, where it generates high returns, and growth in the U.S. is being driven by higher return businesses such as asset management, retirement, and annuities. Prudential's International business (Life Planner and Gibraltar) focuses on protection-type products with lower risk profile and strong growth opportunities. PRU remains sensitive to equity market volatility given its large and growing VA book, but the company has below average exposure to interest-sensitive products. Rapid growth in the company's pension risk transfer business in recent years results in higher investment, asset liability management and longevity risks.

Strengths:

- Very strong competitive position in the U.S. and Japan and strong brand recognition.
- Good earnings diversification by line of business and geography, including in unregulated businesses.
- Strong capitalization and liquidity.
- Strong risk management and control.

Weaknesses:

- Higher than average equity market sensitivity from a large VA book, although well hedged.
- Exposure to prolonged low interest rate environment.
- Emerging risks in a fast growing pension risk transfer business.
- Aggressive capital management.

Key Statistics – Prudential Insurance Company of America

(\$ millions)	2013	2014	2015	2016	2017
Total Assets without Separate Account	\$171,199	\$177,423	\$116,871	\$123,992	\$127,037
Separate Account Assets	\$125,438	\$131,679	\$128,124	\$136,303	\$139,127
Total Assets	\$296,637	\$309,102	\$244,996	\$260,294	\$266,164
Capital & Surplus	\$9,383	\$10,331	\$11,544	\$11,174	\$9,948
Net Gain from Operations before tax	\$1,098	\$1,018	\$3,747	\$6,088	\$890
Net Realized Capital Gains (Losses)	\$106	\$170	\$2,698	(\$507)	(\$722)
Net Income	\$1,358	\$901	\$5,253	\$5,213	(\$217)
Return on Average Assets (Stat.)	0.46%	0.30%	2.05%	2.05%	-0.08%
Return on Average Equity (Stat.)	14.92%	8.43%	46.60%	48.22%	-1.92%
RBC Ratio (ACL)	911.57%	995.60%	967.46%	913.44%	820.13%

Sources: Company Reports and Statutory Filings