

**STATE OF NEW JERSEY**



**Filed**  
**June 1, 2018**  
**Commissioner**  
**Department of Banking &**  
**Insurance**

**COORDINATION EXAMINATION REPORT  
RELATING TO THE CONDITION OF**

**PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY**  
**NEWARK, NEW JERSEY**

AS OF DECEMBER 31, 2016

NAIC COMPANY CODE 97195

NAIC GROUP CODE 0304

**COORDINATING STATE**

NEW JERSEY

**PARTICIPATING STATES**

ARIZONA

CONNECTICUT

INDIANA

Pruco Life Insurance Company of New Jersey  
Financial Examination as of December 31, 2016

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**State of New Jersey**

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF INSURANCE

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MARLENE CARIDE  
*Acting Commissioner*

PETER L. HARTT  
*Director*

May 25, 2018

Honorable Marlene Caride, Acting Commissioner  
Honorable Peter L. Hartt, Director, Division of Insurance

State of New Jersey  
Department of Banking and Insurance  
P.O. Box 325  
Trenton, New Jersey 08625-0325

Dear Acting Commissioner Caride and Director Hartt:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of New Jersey, an examination as of December 31, 2016 has been made of the financial condition and business affairs of the:

**Pruco Life Insurance Company of New Jersey**

**213 Washington Street**

**Newark, NJ 07102**

hereinafter referred to as the "Company" or "PLNJ."

## **SCOPE OF THE EXAMINATION**

The previous examination of the Company was conducted by the New Jersey Department of Banking and Insurance (“NJDOBI”) as of December 31, 2011. The current examination, which covers the subsequent five-year period through December 31, 2016, was conducted at the statutory home office of the Company and additionally at the headquarters of its ultimate controlling party, Prudential Financial, Inc. (“PFI”) located at 751 Broad Street, Newark, New Jersey. The NJDOBI led a coordinated multistate examination with the Connecticut Insurance Department, the Arizona Department of Insurance and the Indiana Department of Insurance as participating states.

The following companies were part of the coordinated multistate examination:

### New Jersey

The Prudential Insurance Company of America	PICA	NAIC #68241
Pruco Life Insurance Company of New Jersey	PLNJ	NAIC #97195
Prudential Legacy Insurance Company of New Jersey	PLIC	NAIC #13809

### Arizona

Prudential Annuities Life Assurance Corporation	PALAC	NAIC #86630
Pruco Life Insurance Company	PLAZ	NAIC #79227

and the following captive insurers:

Prudential Arizona Reinsurance Captive Company	PARCC	NAIC #14299
Universal Prudential Arizona Reinsurance Company	UPARC	NAIC #14296
Prudential Arizona Reinsurance Term Company	PARTC	NAIC #14300
Prudential Arizona Reinsurance Universal Company	PARUC	NAIC #14298
Prudential Term Reinsurance Company	PTRC	NAIC #15456
Prudential Universal Reinsurance Company	PURC	NAIC #15344

### Connecticut

Prudential Retirement Insurance and Annuity Company	PRIAC	NAIC #93629
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### Indiana

Vantage Casualty Insurance Company	VCIC	NAIC #11821
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In addition to the coordinated multistate examination of insurance companies domiciled in the United States, the NJDOBI conducted an examination of the activities of the ultimate controlling party, PFI, and its insurance companies domiciled outside of the U.S. and non-insurance

companies, herein collectively referred to as the “Group.” A consolidated group-wide examination report has been separately submitted for the Group.

As part of the examination planning procedures, the NJDOBI reviewed various public and non-public materials dated 2012 through 2016, submitted by the Company, including but not limited to:

- Board of Directors (“Board”) and other Board committee minutes (through 2017);
- Statutory audit reports completed by the Company’s independent certified public accountants, PricewaterhouseCoopers, LLP (“PwC”);
- Management’s Discussion and Analysis, as reported for statutory purposes;
- Actuarial Memoranda;
- Statements of Actuarial Opinion;
- Documentation supporting Section 404 of the Sarbanes-Oxley Act of 2002 (“SOX”);
- Form 10-K reports of PFI filed with the Securities and Exchange Commission;
- Annual Statements and other documents filed with the NJDOBI;
- Reports of the Group’s Internal Audit Department;
- Rating Agency Reports; and,
- Reports and work from other regulators of the Group.

A comprehensive review was made of the financial analysis files and documents submitted by the Financial Analysis Unit of the NJDOBI, reports from the National Association of Insurance Commissioners (“NAIC”) database, as well as independent audit reports, all of which indicated no material concerns with respect to financial condition or regulatory compliance issues.

Work papers prepared by PwC, as of December 31, 2016 and 2015, relating to its annual audits were reviewed and relied upon to the extent deemed appropriate.

INS Consultants, Inc. (“INS”) was engaged by the NJDOBI to perform the examination procedures in certain key functional activities of the financial condition examination, to conduct an evaluation of the Company’s information technology (“IT”) controls, and to conduct the actuarial review of the Group.

Rutter Associates, LLC was engaged as a sub-contractor by INS to conduct the review of investments for the Group.

Risk and Regulatory Consulting, LLC (“RRC”) was engaged by the NJDOBI to perform interim reviews on a Group basis in the following areas:

- Long term care insurance;
- Pension risk transfer;
- Variable annuity living benefit guarantees;
- Affiliated and related party transactions; and,
- Own Risk Solvency Assessment (“ORSA”) Review.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the “Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with the NAIC Accounting Practices & Procedures Manual and the NAIC Annual Statement Instructions.

The examination considered prospective risks, including those risks that existed at December 31, 2016 that may impact future operations or risks associated with future business plans of the Company. Examination procedures were performed as deemed appropriate to evidence actions that the Company had taken to mitigate these risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. During the examination, consideration was given to work performed by both PFI’s Internal Audit Department and PwC which was the Company’s external auditing firm during the examination period. Certain auditor workpapers have been incorporated into the workpapers

of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented within the financial statements and commented on within the report caption “Notes to the Financial Statements.”

## **COMPANY HISTORY**

The Company was incorporated as PruLife Insurance Company of New Jersey on September 17, 1982. The Certificate of Incorporation (“Certificate”) of the Company was recorded in the Essex County Clerk's Office on October 15, 1982, approved by the Commissioner of Insurance of the State of New Jersey and filed with the NJDOBI on October 18, 1982. This Certificate was amended on November 22, 1982, and the Company was renamed to Pruco Life Insurance Company of New Jersey. The amended certificate was approved by the Commissioner and filed with the NJDOBI on December 3, 1982.

PICA purchased all of the Company's authorized voting stock on original issue in December 1982. In September 1983, PICA contributed the Company's stock to PLAZ.

The Company is authorized to write “Life Insurance”, Health Insurance” and “Annuities” as defined in N.J.S.A. 17B:17-3 to 17B:17-5 as well as the following:

- “Reinsurance” (as authorized per N.J.S.A 17B:18-62 and 17B:18-63 of Subtitle 3)
- “Extended reinsurance” (as authorized per N.J.S.A. 17B:18-65 of Subtitle 3)
- All other insurance and reinsurance as may be permitted by an insurer writing the types of insurance indicated above.

PLNJ markets universal, variable and term life products as well as variable and fixed annuities through individual financial planners, wire houses, banks, independent agents, and the Group's own sales force.

Administration and management of PLNJ is integrated into Group's operations and management structure and is recognized as a strategic subsidiary of the Group.

During the examination period, extraordinary dividends paid to PLAZ were recorded as return of capital. All extraordinary payments were approved by the NJDOBI. A summary of all ordinary and extraordinary dividends paid to PLAZ during the examination period are summarized below:

	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2016	\$67,135,467	\$173,914,655
2015	0	0
2014	80,000,000	0
2013	59,000,000	96,000,000
2012	0	0

The Company is a wholly owned subsidiary of PLAZ. The Company has 400,000 shares of capital stock at a par value of \$5 per share which is authorized, issued and outstanding to PLAZ. There were no dividends paid on the capital stock during the examination period. The Company has not issued any preferred stock shares.

The Company's home office is located at 213 Washington Street, in the City of Newark, New Jersey, County of Essex, 07102.

### **PARENTS, SUBSIDIARIES AND AFFILIATES**

The Company is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1 et seq. Accordingly, the company has filed with the State of New Jersey an insurance holding company registration as required under N.J.S.A. 17:27A-3.

The Group has over 400 domestic and international insurance and non-insurance entities within various business segments of the organization. The Group has insurance businesses throughout the world with the most significant insurance entities in the United States and Japan. Most of the Group's non-insurance entities provide investment management and advisory services by means of institutional portfolio management, retail funds management, private lending and asset securitization activity and other structured products. These products and services are provided to third-party clients and to other Group businesses.

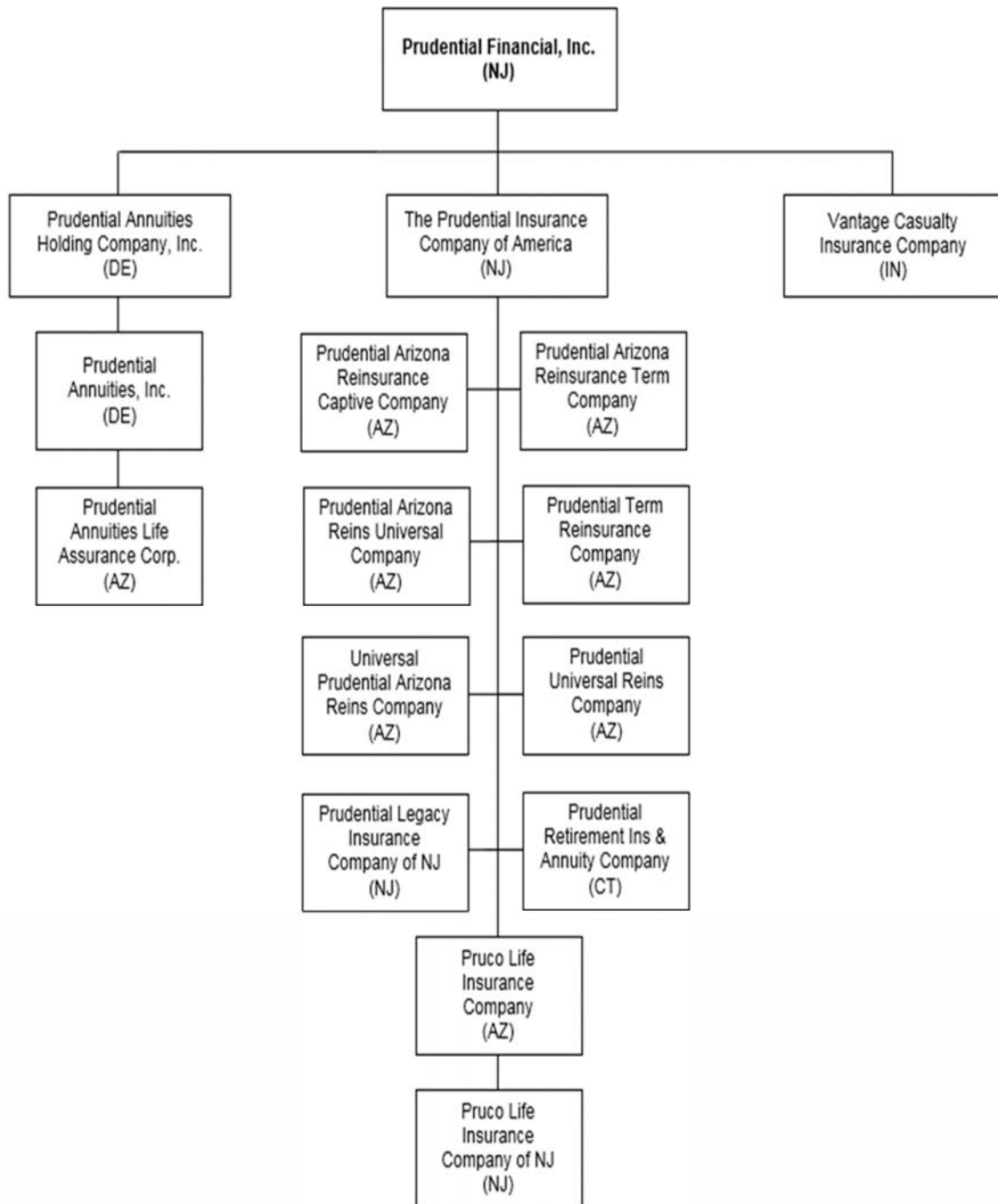


The Group's business operations are segregated into five divisions as indicated below:

- U.S. Retirement Solutions and Investment Management Division with three business segments: Individual Annuities, Retirement, and Asset Management
- U.S. Individual Life and Group Insurance Division with two business segments: Individual Life and Group Insurance
- International Insurance Division with one business segment: International Insurance.
- Closed Block Division with one business segment: Closed Block
- Corporate and Other Operations. Includes corporate items and initiatives that are not allocated to business segments, and divested businesses.

The divisions were subsequently reorganized at the end of 2017 but the reporting segments remained the same. This change is described under "Subsequent Events" in this report.

The following is an abridged organizational chart of the Group's insurance companies domiciled in the U.S. as of December 31, 2016:



The Group enters into inter-affiliate agreements in the normal course of business. These agreements are maintained on a legal entity basis as part of PFI's intercompany agreement database and are subject to PFI's intercompany agreement policy. This policy outlines approval and reporting for agreements between PFI's affiliates. The primary types of contractual agreements between affiliated legal entities concern the provision of investment management and advisory services, reinsurance, cash management services, administrative and other services, and International Swaps and Derivatives Association agreements. The following are some of the major agreements in which the Company is a participant.

On January 1, 2013, PICA entered into a Master Cash and Administrative Services Agreements with PLNJ. Under this agreement, PICA furnishes services of officers and employees and provides supplies, use of equipment, office space, and makes payment to third parties for general expenses, state and local taxes. The agreement obligates PLNJ to reimburse the PICA in connection with such agreements.

On September 16, 2002, PLNJ entered into an administrative services agreement with Prudential Investments, LLC to provide administrative services to Prudential Investments, LLC including maintaining certain books and records of the Prudential Series Fund.

On January 1, 2001, PICA, along with its affiliates and subsidiaries, including PLNJ, entered into a tax allocation agreement with PFI. Under this agreement, PFI acts as the catalyst for allocating, reimbursing, paying and crediting subsidiaries who are parties to this agreement.

### **MANAGEMENT AND CONTROL**

In accordance with the Company's By-Laws, the annual shareholder meeting is to be held at a time and place as designated by the Board. Special shareholder meetings may be called by the Chairman of the Board, President of the Company, or by Board resolution. Shareholders holding a majority of the shares who are entitled to vote shall constitute a quorum for the transaction of business.

The Company's business is overseen by the Board, which shall have not less than five nor more

than fifteen members. The Directors shall be elected at the annual meeting of shareholders. Each Director shall be elected to hold office until the next succeeding annual meeting and, subject to law and the By-Laws, shall hold office for the term which elected and until his successor shall be elected and shall qualify. The Board shall exercise the powers of the Company subject to those powers reserved for the shareholders by law, by the Certificate of Incorporation or by the By-Laws.

The following is a list of Board of Directors serving the Company as of December 31, 2016:

<u>Director</u>	<u>Occupation</u>
Lori D. Fouche	President, Annuities
Kenneth Y. Tanji	Senior Vice President of PFI - Treasurer
Kent Douglas Sluyter	Senior Vice President, Individual Life Insurance, PFI
John Chieffo	Chief Financial Officer, Chief Accounting Officer & VP
Bernard Joseph Jacob	Senior Vice President, Chief Financial Officer, PFI
Richard F. Lambert	Senior Vice President and Chief Actuary, PFI
Christine Knight	Vice President, Finance, Individual Life Insurance

Minutes of meetings held by the Board or Board Committees revealed adequate approval of the Company's transactions and events including the review and approval of the prior statutory financial examination report.

The Board by majority may establish from among its members a resolution to form a committee to oversee certain functions and affairs of the Company. The Company maintains an Audit Committee consisting of the following members as of December 31, 2016:

Audit Committee Members

Bernard J. Jacob  
Richard F. Lambert  
Kent D. Sluyter  
John Chieffo  
Kenneth Y. Tanji  
Lori D. Fouche  
Christine Knight

The Company maintains a Board and an Audit Committee which complies with N.J.S.A. 17:27A-4(d)(5) at the ultimate parent level (PFI).

PFI's ethics policy applies to all the Company's directors, officers and employees and requires them to disclose any outside activities or affiliations that may present, or appear to present, a potential or actual conflict of interest.

Annual conflict of interest statements are completed by directors, officers and key employees to note any potential conflicts of interest. The Group's Corporate Governance and Business Ethics Committee review the conflict of interest statements and report any issues to the Board. Per our review of the minutes of the Corporate Governance and Business Ethics Committee, there were no disclosures noted.

Sun-Jin Moon is the registered agent of the Company upon whom process may be served.

Notes:

Effective April 19, 2017, Bernard J. Jacob resigned as a member of the Board of Directors and the Audit Committee. Effective November 15, 2017, Richard F. Lambert resigned as a member of the Board of Directors and the Audit Committee and subsequently retired effective February 15, 2018.

Effective November 15, 2017, Caroline A. Feeney and Candace J. Woods were elected as members of the Board of Directors and the Audit Committee.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to transact business in the states of New Jersey and New York. The Company primarily operates within the individual life and individual annuity segments of the U.S. Consumer Division of the Group and markets individual universal life insurance, variable universal life insurance, term life insurance, individual variable and fixed annuities and guaranteed investment contracts.

PLNJ offers a wide array of annuities including: variable annuities with fixed rate options and market value adjustments that are registered with the SEC; and fixed rate options without market value adjustments that are not registered with the SEC. Variable annuities may offer living benefits and death benefit guarantees. Most contracts guarantee the beneficiary a return of total purchase payments.

The majority of net individual life in-force is term business which includes a conversion option to permanent life insurance coverage. Most of the mortality risk associated with individual life

contracts is reinsured.

The Company utilizes independent brokers and dealers, banks, independent financial planners and producer groups in producing business. It also utilizes its affiliate, Prudential Advisors, to produce business including universal, term and variable life insurance and variable and fixed annuities.

## **REINSURANCE**

The Company strategically utilizes reinsurance on a ceding basis. The Company cedes most of its reinsurance to affiliated reinsurers. Reinsurance is utilized to provide additional capacity for growth, provide risk diversification, and minimize the net loss potential from larger risks.

The Company primarily employs reinsurance to manage mortality risk on its yearly renewable term agreements. The Company cedes reinsurance on these types of policies to PICA primarily. On policies written after the year 2000, the Company has reinsured a significant portion of the mortality risk assumed. However, beginning in August 2014, the Company reduced the amount of mortality risk reinsured on new term life business particularly on policies with smaller face values.

The Company also utilizes affiliated captive reinsurers to finance the non-economic portion of statutory reserves for term and universal policies required to be held under Regulation XXX and Guideline AXXX. For term policies, effective from the year 2000 through December 31, 2009, the Company ceded 90% of the policy risk to PARCC through a coinsurance agreement. For term policies effective from January 1, 2010 through December 31, 2013, the Company ceded 95% of the policy risk through a coinsurance agreement to PARTC. For term policies effective from January 1, 2014 through December 31, 2017, the Company ceded 95% of the policy risk through a coinsurance agreement to PARTC. The Company ceded 95% of the policy risk on guaranteed universal life and certain other universal life policies to PARUC through a coinsurance agreement.

Through March 31, 2016, the Company reinsured the majority of its variable annuity living benefit guarantees to an affiliated reinsurance company, Pruco Reinsurance, Ltd (Pruco Re). Effective April 1, 2016, the Company recaptured these risks related to its variable annuity living benefit

guarantees that were previously reinsured to Pruco Re, and ceded those risks along with the variable annuity base contract to PICA under a coinsurance and modified reinsurance agreement. This agreement covers all new and in force policies except for those policies reinsured externally.

## **ACCOUNTS AND RECORDS**

While the primary management and financial reporting activities are conducted from the Home Office in Newark, New Jersey, the Group maintains several administrative offices, including the following:

- 1 Corporate Drive, Shelton, CT – Headquarters for Individual Annuities
- 1 Penn Plaza, New York, NY – Operating Facility
- 13001 County Road, 10 Plymouth, MN – Data Center
- 2 Portland Square, Portland, ME – Operating Facility
- 200 Wood Ave S., Iselin, NJ – Operating Facility
- 2100 Ross Avenue, Dallas TX – Operating Facility
- 2101 Welsh Road, Dresher, PA – Data Center
- 213 Washington Street, Newark, NJ – Headquarters for Individual Life
- 3 Gateway Center, Newark, NJ – Operating Facility
- 30 Scranton Office Park, Scranton, PA – Operating Facility
- 55 Livingston Ave, Roseland, NJ – Data Center
- 655 Broad Street, Newark NJ – Headquarters (Asset Management)
- 701 San Marco Blvd., Jacksonville, FL – Operating Facility
- 751 Broad Street, Newark, NJ – Headquarters (PFI International Insurance)
- 80 Livingston Ave, Roseland, NJ – Headquarters (Group Insurance)

## **INFORMATION SYSTEMS**

The Group's technology and telecommunications infrastructure, includes two data centers located within the United States, which are the Corporate Service Center ("CSC") in Roseland, New Jersey and the Employee and Retirement Service Center ("ERSC") in Dresher, Pennsylvania. The Group also maintains data centers internationally, including two located in Osaka and Tokyo, Japan. Global Business and Technology Solutions ("GBTS") is independent of the business unit segments

and is responsible for maintaining the Company’s overall technology infrastructure utilized for data processing by the business units within the Group, and for overall information systems standards, while business unit IT functions are responsible for developing and maintaining their respective business applications. GBTS is also responsible for overall information systems standards. Group hosted processing also occurs in Newark, New Jersey and New York, New York. Limited vendor hosted processing occurs from Billerica, Massachusetts; Buffalo, New York; and Philadelphia Pennsylvania.

INS performed an examination of IT controls which included testing the operating effectiveness of specific policies and procedures relating to the Company’s information systems general controls covering the period from January 1, 2016 to December 31, 2016. The evaluation reviewed the control structure within an automated accounting system as well as application controls utilized within computer processes. Controls were deemed to be effective and controls were relied upon during this examination. INS also performed a cybersecurity risk assessment on behalf of the NJDOBI and participating states with an understanding of the Group’s current cybersecurity posture and capabilities. In performing the cybersecurity risk assessment, the following frameworks and publications were utilized: National Institute of Standards and Technology (“NIST”) Framework for Improving Critical Infrastructure Cyber Security, Security and Privacy Controls for Federal Information Systems and Organizations; Health Insurance Portability and Accountability Act Security Rule, and the NAIC Cybersecurity Guiding Principles. Based upon the assessment no reportable concerns were noted.

**FINANCIAL STATEMENTS**

The Company’s Balance Sheet, Income Statement and Changes in Surplus as reported by the Company are indicated within the following exhibits:

Exhibit A	Balance Sheet at December 31, 2016.....	15
Exhibit B	Summary of Operations for the five-year period ending December 31, 2016.....	16
Exhibit C	Capital and Surplus account for the five-year period ending December 31, 2016.....	17



Pruco Life Insurance Company of New Jersey

**EXHIBIT A: Balance Sheet**

As of December 31, 2016

<u>NET ADMITTED ASSETS</u> (000's)	<u>Per Examination</u> <u>12/31/2016</u>	<u>Per Company</u> <u>12/31/2016</u>	<u>Examination</u> <u>Change</u>	Note Number
Bonds	\$ 1,114,358	\$ 1,114,358	0	1
Common Stocks	1,171	1,171	0	
Mortgage Loans on Real Estate: First Liens	161,444	161,444	0	
Cash and Equivalents	44,396	44,396	0	
Short-term Investments	5,000	5,000	0	
Contract Loans	187,242	187,242	0	
Derivatives	19,430	19,430	0	
Other Invested Assets	37,021	37,021	0	
Receivables for Securities	727	727	0	
Subtotal Cash and Invested Assets	<u>1,570,789</u>	<u>1,570,789</u>	<u>0</u>	
Investment Income Due and Accrued	16,238	16,238	0	
Uncollected Premiums and Agents' Balances	9,033	9,033	0	2
Reinsurance: Amounts Recoverable	11,027	11,027	0	
Reinsurance: Other Amounts Receivable	11,249	11,249	0	
Current Federal and Foreign Income Tax Recov	1,974	1,974	0	
Net Deferred Tax Asset	35,776	35,776	0	
Guaranty Funds Receivable or On Deposit	2,016	2,016	0	
Receivables from Parent, Subsidiaries and Affiliates	14,615	14,615	0	
Aggregate Write-ins for other than Invested Assets	0	0	0	
From Separate Accounts Statement	12,784,298	12,784,298	0	
Total Net Admitted Assets	<u>\$ 14,457,017</u>	<u>\$ 14,457,017</u>	<u>0</u>	
<u>LIABILITIES</u>				
Aggregate Reserve for Life Contracts	\$ 1,096,219	\$ 1,096,219	0	2
Liability for Deposit-type Contracts	164,308	164,308	0	2
Contract Claims: Life	5,745	5,745	0	2
Advance Premiums and Annuity Considerations	3,550	3,550	0	
Other Amounts Payable on Reinsurance	44,315	44,315	0	
Interest Maintenance Reserve	2,028	2,028	0	
Commissions to Agents Due and Accrued	640	640	0	
General Expenses Due or Accrued	12,501	12,501	0	
Transfer to Separate Account Due or Accrued (net)	(15,956)	(15,956)	0	2
Taxes, Licenses and Fees Due or Accrued	4,959	4,959	0	
Amounts Withheld or Retained by Company as Agent or Trustee	217	217	0	
Remittances and Items Not Allocated	4,404	4,404	0	
<u>Miscellaneous Liabilities:</u>				
Asset Valuation Reserve	18,062	18,062	0	
Payable to Parent, Subsidiaries and Affiliates	2,665	2,665	0	
Derivatives	1,411	1,411	0	
Payable for Securities	36	36	0	
Payable for Securities Lending	15,054	15,054	0	
Aggregate Write-ins for Liabilities	1,617	1,617	0	
From Separate Accounts Statement	12,781,974	12,781,974	0	
Total Liabilities	<u>\$ 14,143,750</u>	<u>\$ 14,143,750</u>	<u>0</u>	
<u>CAPITAL AND SURPLUS</u>				
Common Capital Stock	\$ 2,000	\$ 2,000	0	
Gross Paid-in and Contributed Surplus	88,853	88,853	0	
Unassigned Funds (surplus)	222,414	222,414	0	2
Surplus as Regards Policyholders	<u>\$ 313,266</u>	<u>\$ 313,266</u>	<u>0</u>	
Total Liabilities, Capital and Surplus	<u>\$ 14,457,017</u>	<u>\$ 14,457,017</u>	<u>0</u>	

**Pruco Life Insurance Company of New Jersey**  
**EXHIBIT B: Statement of Operating Results**  
For the Five-Year Period Ended December 31, 2016

<b>Revenue (000's)</b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Premiums and Annuity Considerations for Life and Accident and Health Contracts	\$ 61,927	\$1,087,407	\$1,143,521	\$1,078,509	\$1,696,296
Considerations for Supplementary Contracts with Life Contingencies	-	-	26	-	68
Net Investment Income	72,154	68,419	66,173	66,388	77,885
Amortization of Interest Maintenance Reserve	622	606	725	1,569	(220)
Separate Accounts Net Gain from Operations Excluding Unrealized Gains or Losses	356	(305)	613	(1,043)	1,066
Commissions and Expense Allowances on Reinsurance Ceded	485,161	94,757	82,121	90,063	96,586
Reserve Adjustments on Reinsurance Ceded	144,476	-	-	-	-
<b>Miscellaneous Income:</b>					
Income from Fees Associated with Investment Mgmt, Administration and Contract Guarantees from SA	291,229	279,455	261,110	226,335	182,444
Aggregate Write-ins for Miscellaneous Income	<u>18,306</u>	<u>44,767</u>	<u>44,778</u>	<u>40,184</u>	<u>33,543</u>
<b>Total Income</b>	<u>1,074,231</u>	<u>1,575,107</u>	<u>1,599,066</u>	<u>1,502,005</u>	<u>2,087,668</u>
<b><u>DEDUCTIONS</u></b>					
Death Benefits	50,142	52,431	43,709	41,453	34,697
Annuity Benefits	14,035	64,099	41,167	40,438	30,161
Disability Benefits and Benefits Under A&H Contracts	4,820	4,879	4,774	4,651	4,675
Surrender Benefits and Withdrawals for Life Contracts	119,882	396,989	292,462	239,924	188,987
Interest and Adjustments on Contract or Deposit-type Contract Funds	(6,589)	3,999	3,761	3,418	3,459
Payments on Supplementary Contracts with Life Contingencies	12	12	12	11	9
Increase in Aggregate Reserves for Life and A&H Contracts	<u>(277,205)</u>	<u>116,346</u>	<u>105,981</u>	<u>54,023</u>	<u>80,248</u>
<b>Total Benefits</b>	<u>(94,902)</u>	<u>638,755</u>	<u>491,867</u>	<u>383,918</u>	<u>342,236</u>
Commissions on Premiums, Annuity Considerations and Deposit-type Contracts	108,578	105,877	108,350	100,943	122,752
General Insurance Expenses	134,595	124,368	117,177	90,173	85,710
Insurance Taxes, Licenses and Fees	9,452	13,961	8,666	12,982	7,910
Increase in Loading on Deferred and Uncollected Premiums	(529)	(333)	430	372	801
Net Transfers To or (From) Separate Accounts Net of Reinsurance	843,119	604,777	794,298	800,214	1,409,203
Aggregate Write-ins for Deductions	<u>(9,781)</u>	<u>6</u>	<u>3</u>	<u>10</u>	<u>(3,682)</u>
<b>Total Expenses</b>	<u>1,085,435</u>	<u>848,656</u>	<u>1,028,924</u>	<u>1,004,694</u>	<u>1,622,694</u>
<b>Net Gain from Operations Before Dividends to Policyholders and Federal Income Taxes</b>	<u>83,698</u>	<u>87,696</u>	<u>78,275</u>	<u>113,394</u>	<u>122,738</u>
Federal and Foreign Income Taxes	4,245	20,560	18,587	32,771	63,439
Net Realized Capital Gains or (Losses)	1,879	(5,440)	(981)	593	6,337
<b>Net Income</b>	<u>\$ 81,332</u>	<u>\$ 61,696</u>	<u>\$ 58,707</u>	<u>\$ 81,216</u>	<u>\$ 65,636</u>

Pruco Life Insurance Company of New Jersey  
**EXHIBIT C: Changes in Capital and Surplus**  
For the Five-Year Period Ended December 31, 2016

<b>Capital and Surplus (000's)</b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
December 31, Previous Year	\$ 409,562	\$ 352,416	\$ 379,665	\$ 465,275	\$ 260,293
<b>Net Income</b>	81,332	61,696	58,707	81,216	65,636
Change in Net Unrealized Cap Gains/(Losses)	1,002	1,917	3,236	(5,475)	3,429
Change in Net Unrealized Foreign Exch. Cap Gain/(Loss)	(150)	(344)	(278)	96	(153)
Change in Net Deferred Income Tax	(27,764)	13,837	12,702	13,522	(20,711)
Change in Non-admitted Assets	25,416	(11,278)	(8,930)	(11,898)	19,515
Change in Reserve on Account of Change in Valuation Basis, (Increase) or Decrease	-	-	464	458	168
Change in Asset Valuation Reserve	(342)	706	(5,011)	2,009	743
Surplus (Contributed to) Withdrawn from Separate Accounts During Period	(116)	(552)	627	(898)	963
Other Changes in Surplus in Separate Accounts Statement	116	552	(627)	898	(963)
Cumulative Effect of Changes in Accounting Principles	-	-	-	-	(113)
Paid in (surplus adjustments)	1,300	-	-	(96,000)	-
Dividends to Stockholders	(241,050)	-	(80,000)	(59,000)	-
Aggregate Write-ins for Gains and Losses in Surplus	63,961	(9,388)	(8,137.95)	(10,537)	136,469
<b>Total Adjustments</b>	<b><u>(177,628)</u></b>	<b><u>(4,550)</u></b>	<b><u>(85,956)</u></b>	<b><u>(166,826)</u></b>	<b><u>139,346</u></b>
<b>Net Change in Capital and Surplus for the Year</b>	<b>(96,296)</b>	<b>57,145</b>	<b>(27,248)</b>	<b>(85,610)</b>	<b>204,982</b>
<b>Capital and Surplus</b>					
December 31, Current Year	<b><u>\$ 313,266</u></b>	<b><u>\$ 409,562</u></b>	<b><u>\$ 352,416</u></b>	<b><u>\$ 379,665</u></b>	<b><u>\$ 465,275</u></b>

## **NOTES TO FINANCIAL STATEMENTS**

### NOTE 1 – Statutory Deposits

The Company had statutory deposits of \$574,411 held on behalf of the Company by the State of New Jersey as of December 31, 2016.

### NOTE 2 – Actuarial Review

In conjunction with the coordinated full scope financial examination of the Group, the NJDOBI utilized the services of INS to perform an actuarial examination based on statutory requirements and provide a report relating to insurance and captive insurance entities domiciled in the US. The risk-focused examination included an evaluation of actuarial controls, procedures and processes. Data for the valuation of company liabilities was reviewed and an evaluation was conducted to ensure all relevant data was included in the review. Additionally, significant reinsurance agreements were reviewed and ceded reinsurance as reported was reconciled. The reinsurance agreements were also evaluated to ensure there was a transfer of risk under these agreements.

Based upon the review, all actuarial accounts based on statutory requirements were deemed to be adequately stated and reinsurance agreements adequately transferred risk.

## **COMMENTS AND RECOMMENDATIONS**

As of December 31, 2016, the Company (including Separate Accounts) reported admitted assets of \$14,457,016,685, liabilities of \$ 14,143,750,399, and capital and surplus of \$313,266,286. During the period under examination, admitted assets increased by \$6,496,395,016 liabilities increased by \$6,443,421,385, and capital and surplus increased by \$52,973,631.

During the planning phases of the examination the following key functional activities were identified for the Group's insurance companies domiciled in the U.S. included in this examination. Both financial reporting risks and other than financial reporting risks were considered in each of the following key activities:

- Investments
- Reserving and Pricing
- Premiums and Underwriting
- Reinsurance
- Related Party Transactions

Risks identified within these key activities as well as overarching prospective risks which could impact future operations were assessed to determine their impact on the nine (9) branded risk classifications described in the Handbook: credit, legal, liquidity, market, operations, pricing and underwriting, reputation, reserving and strategy. Corresponding mitigating strategies were evaluated to determine how these risks are controlled.

The examination warranted no reportable findings nor statutory violations. Other observations and recommendations have been communicated to the Board and Management which relate to corporate governance, general controls, and procedures and processes; as well as, specific items identified during the examination.

### **SUBSEQUENT EVENTS**

#### **The U.S. Tax Cuts and Jobs Act of 2017**

Effective December 2017, the U.S. Tax Cuts and Jobs Act of 2017 (“Tax Act”) was ratified. This Tax Act had an adverse 2017 statutory capital impact on the Group due to a reduction of the corporate tax rate from 35% to 21% and a corresponding reduction in the value of statutory deferred tax assets and an increase in certain statutory reserves. Despite these effects on the Group’s U.S. domestic insurers’ capital position, the Group reported domestic insurer Composite Risk Based Capital (“RBC”) ratios of greater than 400% as of December 31, 2017.

Additionally, the NAIC is anticipated to embark on a workstream to review the impact of the Tax Act on RBC requirements in the near future. These changes may have an adverse effect on PFI’s domestic insurers’ future statutory capital position; however, Management has expressed a willingness to ensure the ratings levels do not fall below its Standard & Poor’s “AA” rating target

level by utilizing available capital or funding additional capital through capital markets.

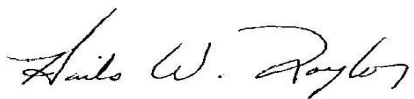
#### New Group Organizational Structure

In July 2017, the Group announced a new organizational structure for its U.S. businesses. Under the new structure, which went into effect during the fourth quarter of 2017, the Group's five U.S. businesses will be aligned under three groups (Individual Solutions, Workplace Solutions, and Investment Management).

#### **CONCLUSION**

The undersigned hereby certifies that an examination has been made of Pruco Life Insurance Company of New Jersey and the foregoing report is true to the best of my knowledge and belief.

Respectfully submitted,



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Hails Taylor, CFE  
Examiner-In-Charge  
Representing the State of New Jersey  
INS Consultants, Inc.

Under the supervision of,



Robert Pietras, CFE  
CFE Reviewer – Supervising Examination  
New Jersey Department of Banking and Insurance

**AFFIDAVIT**

I, Hails Taylor, the undersigned, hereby certify that the foregoing Report of Examination accurately discloses, to the best of my knowledge, all material and relevant information related to the financial condition of Pruco Life Insurance Company of New Jersey in accordance with the NAIC Financial Condition Examiners Handbook and New Jersey State Regulations.

Respectfully submitted,



Hails Taylor, CFE  
Examiner-In-Charge  
Representing the State of New Jersey  
INS Consultants, Inc.

Under the supervision of:



Robert Pietras, CFE  
CFE Reviewer – Supervising Examination  
New Jersey Department of Banking and Insurance

State of New Jersey  
County of Mercer

Subscribed and sworn to before me, Sheila Tkacs, on this  
20<sup>th</sup> day of May, 2018.



Notary Public of New Jersey

My commission expires: July 2020