

STATE OF NEW JERSEY



Filed
June 1, 2018
Commissioner
Department of Banking &
Insurance

COORDINATION EXAMINATION REPORT
RELATING TO THE CONDITION OF

PRUDENTIAL LEGACY INSURANCE COMPANY OF NEW JERSEY

NEWARK, NEW JERSEY

AS OF DECEMBER 31, 2016

NAIC COMPANY CODE 13809

NAIC GROUP CODE 0304

COORDINATING STATE

NEW JERSEY

PARTICIPATING STATES

ARIZONA

CONNECTICUT

INDIANA

Prudential Legacy 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
OFFICE OF SOLVENCY REGULATION
PO BOX 325
TRENTON, NJ 08625-0325

PHIL MURPHY
Governor

MARLENE CARIDE
Acting Commissioner

SHEILA OLIVER
Lt. Governor

PETER L. HARTT
Director

TEL (609) 292-5350
FAX (609) 292-6765

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
PO 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:

Prudential Legacy Insurance Company of New Jersey
751 Broad Street
Newark, NJ 07102

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

SCOPE OF THE EXAMINATION

The Company was previously domiciled in the State of Iowa under the name of Pruco Insurance Company of Iowa. This is the initial examination of the Company following its re-domestication from the State of Iowa in 2014 and covers the period through December 31, 2016. The examination was conducted at the statutory home office of the Company and headquarters of its parent, The Prudential Insurance Company of America (“PICA”), and its ultimate controlling party, Prudential Financial, Inc. (“PFI”), located at 751 Broad Street, Newark, New Jersey. The New Jersey Department of Banking and Insurance (“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 list of companies was 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 |
|---|-------|-------------|

Indiana

| | | |
|------------------------------------|------|-------------|
| Vantage Casualty Insurance Company | VCIC | NAIC #11821 |
|------------------------------------|------|-------------|

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 2014 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 PICA’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

PLIC is a stock life insurance company organized on November 3, 2014 under the laws of the State of New Jersey and was the successor of the Pruco Insurance Company of Iowa. Pruco Insurance Company of Iowa was established on April 26, 2010 to support the U.S. individual life and group insurance divisions and its lone business in force was one reinsurance contract which reinsured a group insurance policy. On September 25, 2014, the Company received a no-objection letter from the Iowa Insurance Division to seek re-domestication to the State of New Jersey and on November 3, 2014, the NJDOBI issued an Order approving re-domestication of the Company to New Jersey.

The Company is a wholly owned subsidiary of PICA, an insurance company founded in 1875. On December 18, 2001, PICA converted from a mutual life insurance company to a stock life insurance company. As part of the demutualization and Plan of Reorganization approved by the NJDOBI, PICA established a regulatory mechanism known as the Closed Block. The Closed Block consists of PICA’s liabilities for certain participating individual life insurance policies and annuity contracts issued in the United States. Assets were allocated to the Closed Block in an amount that was determined to produce cash flows which, together with revenues from policies included in the Closed Block, are expected to be sufficient to support obligations and liabilities relating to these policies. These obligations and liabilities include a provision for payment of benefits, certain expenses, and taxes, as well as to provide for the continuation of the Closed Block policyholder dividend scales in effect in the year 2000, assuming experience underlying such dividend scales continue.

Effective January 1, 2015, the Company entered into a reinsurance agreement with PICA (the “Reinsurance Agreement”) in which PICA reinsured substantially all of the outstanding liabilities of the Closed Block, primarily on a coinsurance basis. The exceptions to the 100% coinsurance arrangement are as follows: (1) the policyholder dividend liability which was reinsured from PICA

to the Company is on a 100% modified coinsurance basis; (2) 10% of the Closed Block's New York policies were retained by PICA; and (3) certain Closed Block policies were previously reinsured externally. In connection with the Reinsurance Agreement, the Company assumed approximately \$57 billion of net admitted assets into a newly established statutory guaranteed separate account ("Prudential Legacy Separate Account"). Concurrently, the Company assumed approximately \$5 billion of assets from PICA to support the Company's securities lending program.

On February 18, 2015, the Company entered into a twenty-year financing facility with certain unaffiliated financial institutions and Essex, LLC, a special purpose company affiliate (the "LLC"). The Company may, at its option, and subject to the satisfaction of customary conditions, issue and sell to the LLC up to \$4 billion in aggregate principal amount of one or more surplus notes, in return for an equal principal amount of credit linked notes issued by the LLC. Upon issuance, the Company would hold any credit linked notes as assets supporting reserves required to be held by the Company relating to the Reinsurance Agreement.

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

The Company has 5,000,000 shares of capital stock with a par value of \$1.00 per share which is authorized, issued and outstanding to PICA. There are no preferred shares outstanding. The Company is subject to regulatory limitations on the payment of dividends. New Jersey insurance law provides that, except in the case of extraordinary dividends (as described below), all dividends or distributions paid by the Company may be paid only through unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized capital gains and revaluation of assets. The Company must give prior notification to the NJDOBI Commissioner of its intent to pay any dividend or distribution. Also, if any dividend, together with other dividends or distributions made within the preceding twelve months, exceed the greater of (i) 10% of prior calendar year's statutory surplus or (ii) the prior calendar year's net gain from operations (excluding realized capital gains), the dividend is an "extraordinary dividend" and prior approval of the NJDOBI Commissioner is required for payment of the dividend. Moreover, the NJDOBI Commissioner is authorized to

disallow the payment of any dividend or distribution, even if the dividend is not “extraordinary”, if it is determined that the Company does not have reasonable surplus relative to its outstanding liabilities and adequate for its financial needs if the Company was to be in a hazardous financial condition. A summary of all ordinary and extraordinary dividends paid during the examination period are as follows:

| | Ordinary Dividends | Extraordinary Dividends |
|------|--------------------|-------------------------|
| 2016 | \$0 | \$ 651,561,075 |
| 2015 | 0 | 1,340,959,047 |
| 2014 | 0 | 0 |
| 2013 | n.a. | n.a. |
| 2012 | n.a. | n.a. |

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.

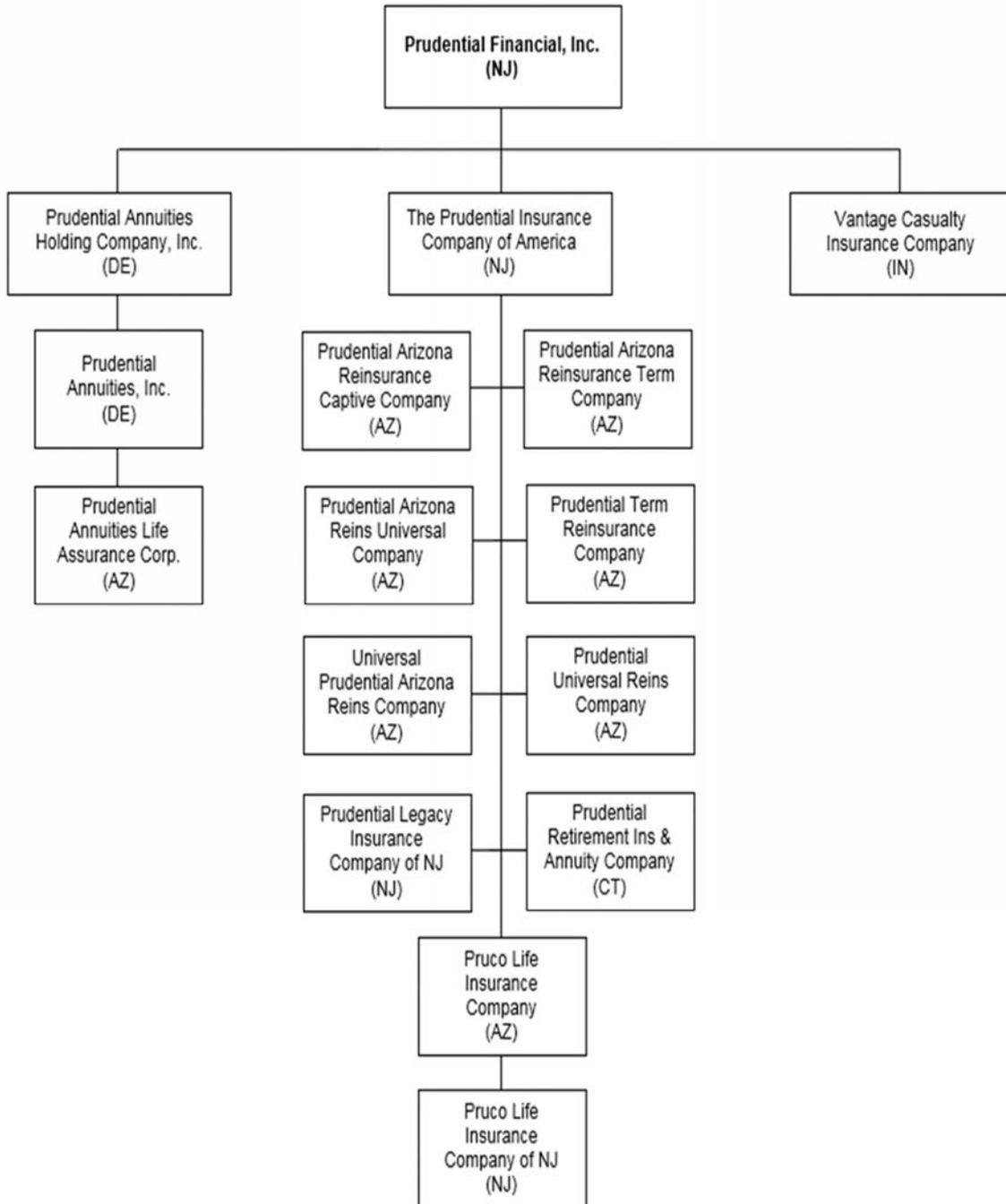
The Group has over 400 domestic and international insurance and non-insurance entities within various business segments of the organization. The Group has insurance businesses throughout the world with the most significant insurance entities in the United States and Japan. Most of the Group’s non-insurance 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 December 1, 2014, PLIC became a party to a service agreement, dated as of January 1, 2013, by and between PICA, PFI and 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. This agreement obligates the affiliates party to the agreement to reimburse PICA for such services.

On January 1, 2015, the Company, along with PICA and PFI, entered into a Closed Block Business Tax Payment Agreement establishing criteria for the allocation and payment of certain tax benefits and tax liabilities associated with the Closed Block. Additionally, the Company takes part in a tax allocation agreement, along with certain affiliates and subsidiaries and PFI. Under the Agreement, PFI acts as the catalyst for allocating, reimbursing paying and crediting affiliates and subsidiaries who are parties to the Agreement.

On December 1, 2014, the Company entered into an investment management agreement with Prudential Global Investment Management ("PGIM") (f/k/a Prudential Investment Management) where PGIM provides investment advisory services with respect to the Closed Block assets held in the Prudential Legacy Separate Account. The Company also has an investment management agreement dated December 1, 2014, with Prudential Investments, LLC, appointing Prudential Investments LLC as its investment manager for certain other Closed Block assets.

On December 1, 2014, the Company entered into an International Swap and Derivatives Association ("ISDA") Master Agreement and Credit Support Annex with Prudential Global Funding, LLC ("PGF") to permit PGF to execute derivatives trades with PLIC.

MANAGEMENT AND CONTROL

In accordance with the Company's By-Laws, the annual meeting of the Sole Shareholder (PICA) shall be held at such place, time and date established by the Board or President of the Company; however, the date shall be within the earlier of the first six months after the end of the Corporation's fiscal year or fifteen (15) months after the shareholders' last annual meeting.

The Company's business is overseen by the Board which shall consist of not less than five (5) nor more than twenty-one (21) Directors. The Directors shall be elected at the annual meeting of the Sole Shareholder. Each Director shall hold office until the next succeeding annual meeting of the shareholder and until his or her successor shall have been elected and qualifies, or until his or her death, resignation or removal.

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

| <u>Director</u> | <u>Occupation</u> |
|--------------------------|--|
| Kent Douglas Sluyter | Senior VP, Individual Life Insurance, President of PLIC |
| Robert Douglas Axel | Senior Vice President and Controller of PFI |
| Christine Knight | Vice President, Finance, Individual Life Insurance, PFI |
| Richard Francis Lambert | Senior Vice President and Chief Actuary, PFI |
| Timothy Lee Schmidt | Managing Director, Chief Investment Officer, Global Portfolio Management |
| Nicholas Cameron Silitch | Senior Vice President and Chief Risk Officer, PFI |
| Kenneth Yutaka Tanji | Senior Vice President of PFI |

Minutes of meetings held by the Board or Board Committees revealed adequate approval of the Company's transactions.

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

| | |
|--------------------|---------------------|
| Robert D. Axel | Kenneth Y. Tanji |
| Kent D. Sluyter | Christine Knight |
| Richard F. Lambert | Nicholas C. Silitch |
| Timothy L. Schmidt | |

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.

The registered agent of the corporation as of December 31, 2016 is Diane Brand and the address where due process may be served is 213 Washington Street, Newark, New Jersey.

Notes:

Effective November 7, 2017, Richard F. Lambert retired as a member of the Board of Directors and the Audit Committee and subsequently resigned effective February 15, 2018.

Effective Nov. 15, 2017, Kent D. Sluyter resigned as a member of the Board of Directors and the Audit Committee.

Effective November 15, 2017 and November 7, 2017, Caroline A. Feeney and Candace J. Woods were elected as members of the Board of Directors and the Audit Committee, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is a wholly owned subsidiary of PICA, which is a wholly owned subsidiary of PFI.

PLIC is licensed to transact business in the State of New Jersey and its business consists solely of the Closed Block of business assumed from PICA in accordance with the Reinsurance Agreement which is detailed under the report caption "Reinsurance."

Closed Block policyholder dividend payments may increase or decrease each year depending upon investment results, mortality experience and other factors. The Closed Block dividends paid to policyholders since PLIC's assumption of the Closed Block business are provided below:

| <u>Year</u> | <u>Policyholder Dividends Paid</u> |
|-------------|------------------------------------|
| 2015 | \$ 1,952,503,640 |
| 2016 | 1,976,407,427 |

Policyholder dividend payments in 2017 declined and are noted under the report caption "Subsequent Events."

REINSURANCE

Effective January 1, 2015, the Company entered into a reinsurance agreement with PICA (the "Reinsurance Agreement") to reinsure substantially all of the Closed Block policies on a coinsurance basis and the following year policyholder dividend liability on a modified coinsurance basis into a guaranteed separate account. Per the Reinsurance Agreement, the Company reinsures 100% of all risks associated with non-New York policies and 90% of all risks associated with New York policies. Consistent with the nature of Closed Block policies and contracts, experience of the Closed Block is ultimately passed onto policyholders over time through adjustments of the annual policyholder dividend scales. PICA remains directly obligated for the insurance policies and annuity contracts in the Closed Block. As a result of the reinsurance, \$57 billion of net admitted assets were transferred by PICA to the Prudential Legacy Separate Account. PLIC also established a committed financing facility to provide statutory capital support when needed, and which is supported by external counterparties and the LLC noted above.

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 |

Prudential Legacy Insurance Company of New Jersey
EXHIBIT A: Balance Sheet
As of December 31, 2016

| Net Admitted Assets (000's) | Per Examination 12/31/2016 | Per Company 12/31/2016 | Examination Change | Note Number |
|--|-------------------------------|---------------------------|-----------------------|----------------|
| Bonds | \$ 228,036 | \$ 228,036 | 0 | 1 |
| Cash and Equivalents | 25,842 | 25,842 | 0 | |
| Short-term Investments | 170 | 170 | 0 | |
| Receivables for Securities | <u>2</u> | <u>2</u> | <u>0</u> | |
| Subtotal Cash and Invested Assets | <u>254,050</u> | <u>254,050</u> | <u>0</u> | |
| Investment Income Due and Accrued | 877 | 877 | 0 | |
| Current Federal and Foreign Income Tax Recov | 253,260 | 253,260 | 0 | |
| Receivables from Parent, Subsidiaries and Affiliates | 25,155 | 25,155 | 0 | |
| From Separate Accounts Statement | <u>59,609,298</u> | <u>59,609,298</u> | <u>0</u> | |
| Total Net Admitted Assets | <u>\$ 60,142,641</u> | <u>\$ 60,142,641</u> | <u>-</u> | |
| LIABILITIES | | | | |
| General Expenses Due or Accrued | \$ 132 | \$ 132 | 0 | |
| Transfer to Separate Account Due or Accrued (net) | 91,287 | 91,287 | 0 | 2 |
| Remittances and Items Not Allocated | 37 | 37 | 0 | |
| Payable to Parent, Subsidiaries and Affiliates | 195,980 | 195,980 | 0 | |
| From Separate Accounts Statement | <u>59,609,298</u> | <u>59,609,298</u> | <u>0</u> | |
| Total Liabilities | <u>\$ 59,896,733</u> | <u>\$ 59,896,733</u> | <u>-</u> | |
| CAPITAL AND SURPLUS | | | | |
| Common Capital Stock | \$ 5,000 | \$ 5,000 | 0 | |
| Gross Paid-in and Contributed Surplus | 277,034 | 277,034 | 0 | |
| Unassigned Funds (surplus) | <u>(36,126)</u> | <u>(36,126)</u> | <u>0</u> | |
| Surplus as Regards Policyholders | <u>\$ 245,908</u> | <u>\$ 245,908</u> | <u>-</u> | |
| | | | <u>0</u> | |
| Total Liabilities, Capital and Surplus | <u>\$ 60,142,641</u> | <u>\$ 60,142,641</u> | <u>-</u> | |

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

| REVENUE (000's) | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|------------------------|-------------------------|------------------|------------------|--------------------|
| Premiums and Annuity Considerations | | | | | |
| for Life and Accident and Health Contracts | \$ 2,609,463,108 | \$ 55,309,026,076 | \$ 25,551 | \$ 23,789 | \$ 22,467 |
| Net Investment Income | (19,900,225) | (8,011,877) | (1,068) | 39,004 | 62,563 |
| Amortization of Interest Maintenance Reserve | 0 | - | 111 | 109 | - |
| Aggregate Write-ins for Miscellaneous Income | (34,191,194) | 115,346,290 | 7,603 | - | - |
| Total Income | 2,555,371,689 | 55,416,360,489 | 32,197 | 62,902 | 85,030 |
| DEDUCTIONS | | | | | |
| Death Benefits | 2,331,009,659 | 2,659,189,204 | (1,000) | (5,000) | (2,000) |
| Matured Endowments | 30,951,401 | 32,904,529 | - | - | - |
| Disability Benefits and Benefits Under A&H Contracts | 44,012,530 | 49,440,778 | - | - | - |
| Surrender Benefits and Withdrawals for Life Contracts | 1,052,250,634 | 1,121,425,662 | - | - | - |
| Interest and Adjustments on Contract | | | | | |
| or Deposit-type Contract Funds | 147,686,182 | 155,984,146 | - | - | - |
| Increase in Aggregate Reserves | | | | | |
| for Life and A&H Contracts | 0 | (11,000) | 1,000 | - | 1,000 |
| Total Benefits | 3,605,910,406 | 4,018,933,319 | - | (5,000) | (1,000) |
| Commissions and Expense Allowances | | | | | |
| on Reinsurance Assumed | 380,949,090 | 651,732,098 | - | - | - |
| General Insurance Expenses | 22,970,662 | 19,895,800 | 7,403 | - | 120,588 |
| Insurance Taxes, Licenses and Fees | 7,121,667 | 8,219,293 | 200 | - | 7,254 |
| Increase in Loading on Deferred | | | | | |
| and Uncollected Premiums | (305,701) | 7,351,095 | - | - | - |
| Net Transfers To or (From) Separate Accounts | | | | | |
| Net of Reinsurance | (3,245,660,118) | 48,744,801,010 | - | - | - |
| Aggregate Write-ins for Deductions | (114,695,180) | (73,571,871) | - | - | - |
| Total Expenses | (2,949,619,580) | 49,358,427,425 | 7,603 | - | 127,842 |
| Net Gain from Operations Before Dividends | | | | | |
| to Policyholders and Federal Income Taxes | 1,899,080,863 | 2,038,999,745 | 24,594 | 67,902 | (41,812) |
| Dividends to Policyholders | 1,976,407,427 | 1,952,503,640 | - | - | - |
| Federal and Foreign Income Taxes | (566,148,839) | (1,382,156,977) | 9,044 | 24,254 | (14,213) |
| Net Realized Capital Gains or (Losses) | (760,678) | (119,509) | 5 | (441) | - |
| Net Income | \$ 488,061,597 | \$ 1,468,533,573 | \$ 15,555 | \$ 43,207 | \$ (27,599) |

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

| Capital and Surplus (000's) | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|------------------------------|------------------------------|----------------------------|----------------------------|----------------------------|
| December 31, Previous Year | \$ 359,156,843 | \$ 5,999,889 | \$ 5,974,717 | \$ 5,933,820 | \$ 5,964,796 |
| Net Income | 488,061,597 | 1,468,533,573 | 15,555 | 43,207 | (27,599) |
| Change in Net Deferred Income Tax | (532,746,500) | 1,617,978,639 | 475 | 968 | 420 |
| Change in Non-admitted Assets | 532,746,500 | (1,617,979,382) | (270) | (430) | (420) |
| Change in Asset Valuation Reserve | - | - | 9,412 | (2,849) | (3,377) |
| Paid in (surplus adjustments) | 50,250,524 | 225,583,171 | - | - | - |
| Dividends to Stockholders | (651,561,075) | (1,340,959,047) | - | - | - |
| Total Adjustments | <u>(601,310,551)</u> | <u>(1,115,376,619)</u> | <u>9,617</u> | <u>(2,310)</u> | <u>(3,377)</u> |
| Net Change in Capital and Surplus for the Year | (113,248,954) | 353,156,954 | 25,172 | 40,897 | (30,976) |
| Capital and Surplus | | | | | |
| December 31, Current Year | <u>\$ 245,907,889</u> | <u>\$ 359,156,843</u> | <u>\$ 5,999,889</u> | <u>\$ 5,974,717</u> | <u>\$ 5,933,820</u> |

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Statutory Deposits

The Company had statutory deposits of \$113,430 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

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).

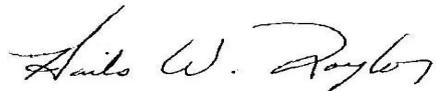
Policyholder Dividends

Dividends on participating life policies primarily reflect investment and mortality results. These factors can vary from year to year, and therefore dividends can either decrease or increase. In 2016, Prudential's Board of Directors approved a continuation of the 2016 dividend scale for 2017. Subsequently in 2017, the Board approved a \$180 million (or 9%) reduction of the dividend scale for 2018, driven by investment results, primarily the impact of the continued low interest rate environment

CONCLUSION

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

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

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 Prudential Legacy Life Insurance Company of New Jersey in accordance with the NAIC Financial Condition Examiners Handbook and New Jersey State Regulations.

Respectfully submitted,



Hails W. 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
25th day of May, 2018.



Notary Public of New Jersey

My commission expires: July 2020