PRUDENTIAL FINANCIAL INC
Form 10-K
February 19, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015
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	22-3703799
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

751 Broad Street
Newark, New Jersey 07102
(973) 802-6000
(Address and Telephone Number of Registrant’s Principal Executive Offices)
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $.01	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x
As of June 30, 2015, the aggregate market value of the registrant's Common Stock (par value $0.01) held by non-affiliates of the registrant was $39.55 billion and 452 million shares of the Common Stock were outstanding. As of January 31, 2016, 446 million shares of the registrant's Common Stock (par value $0.01) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Part III of this Form 10-K incorporates by reference certain information from the Registrant's Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 10, 2016, to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the year ended December 31, 2015.

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Forward-Looking Statements

Certain of the statements included in this Annual Report on Form 10-K, including but not limited to those in Management’s Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “includes,” “plans,” “assumes,” “estimates,” “projects,” “intends,” “should,” “will,” “shall” or variati 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) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facility; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other

post-retirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the U.S. Department of Labor's proposed fiduciary rules; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters, and our exposure to contingent liabilities, including related to the remediation of certain securities lending activities administered by the Company; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) our ability to execute, and effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing projected results of acquisitions; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; and (26) Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" included in this Annual Report on Form 10-K for discussion of certain risks relating to our businesses and investment in our securities.

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Throughout this Annual Report on Form 10-K, "Prudential Financial" and the "Registrant" refer to Prudential Financial, Inc., the ultimate holding company for all of our companies. "Prudential Insurance" refers to The Prudential Insurance Company of America. "Prudential," the "Company," "we" and "our" refer to our consolidated operations.

PART I

ITEM 1. BUSINESS

Overview

Prudential Financial, Inc., a financial services leader with approximately $1.184 trillion of assets under management as of December 31, 2015, has operations in the United States, 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 proprietary and third-party distribution networks. Our principal executive offices are located in Newark, New Jersey.

Demutualization and Elimination of the Historic Separation of the Businesses

On December 18, 2001, Prudential Insurance converted from a mutual life insurance company owned by its policyholders to a stock life insurance company and became a wholly-owned subsidiary of Prudential Financial. The demutualization was carried out under Prudential Insurance's Plan of Reorganization, which required us to establish and operate a regulatory mechanism known as the Closed Block. The Closed Block includes certain in force participating insurance and annuity products and corresponding assets that are used for the payment of benefits and policyholders' dividends on these products, as well as certain related assets and liabilities. On the date of demutualization, eligible policyholders received shares of Prudential Financial's Common Stock or the right to receive cash or policy credits, which are increases in policy values or increases in other policy benefits, upon the extinguishment of all membership interests in Prudential Insurance.

From demutualization through December 31, 2014, the businesses of Prudential Financial were separated into the Financial Services Businesses and the Closed Block Business for financial statement purposes. Prior to December 31, 2014, the Financial Services Businesses were comprised of the U.S. Retirement Solutions and Investment Management division, the U.S. Individual Life and Group Insurance division and the International Insurance division, and the Closed Block formed the principal component of the Closed Block Business. From demutualization through December 31, 2014, Prudential Financial also had two classes of common stock outstanding: the Common Stock, which is publicly-traded (NYSE:PRU) and which reflected the performance of the Financial Services Businesses, and the Class B Stock, which was issued through a private placement, did not trade on any stock exchange, and which reflected the performance of the Closed Block Business. In January 2015 we repurchased and cancelled all of the outstanding shares of Class B Stock.

As a result of the repurchase of the Class B Stock, for reporting periods commencing after December 31, 2014, the Company's earnings per share of Common Stock reflect the consolidated earnings of Prudential Financial, and the distinction between the Financial Services Businesses and the Closed Block Business has been eliminated for financial statement purposes. The results of the Closed Block, along with certain related assets and liabilities, are reported as a separate segment, referred to as the "Closed Block division" and treated as a divested business under Prudential Financial's definition of adjusted operating income. The results of divested businesses are included in "Net income" and "Income from continuing operations" determined in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") but are excluded from adjusted operating income. See Note 22 to the Consolidated Financial Statements for the Company's definition of a divested business and an explanation of adjusted operating income, and see Note 12 to the Consolidated Financial Statements and "—Closed Block Division" below for more information on the Closed Block.

We refer to the divisions and segments of the Company that formerly comprised the Financial Services Businesses as "PFI excluding the Closed Block division" and we refer to the operations that were formerly included in the Closed Block Business as the "Closed Block division," except as otherwise noted.

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Our Businesses

Our principal operations are comprised of four divisions, which together encompass seven segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of our Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of our Individual Life and Group Insurance segments. The International Insurance division consists of our International Insurance segment. The Closed Block division consists of our Closed Block segment. Our Corporate and Other operations include businesses that have been or will be divested, corporate items and initiatives that are not allocated to business segments and businesses that are not sufficiently material to warrant separate disclosure. These businesses are described below.

See Note 22 to the Consolidated Financial Statements for revenues, income and loss, and total assets by segment.

U.S. Retirement Solutions and Investment Management Division

The U.S. Retirement Solutions and Investment Management division conducts its business through the Individual Annuities, Retirement and Asset Management segments.

Individual Annuities

Our Individual Annuities segment manufactures and distributes individual variable and fixed annuity products, primarily to the U.S. mass affluent market. We focus on innovative product design and risk management strategies.

Competition

We compete with other providers of retirement savings and accumulation products, including large, well-established insurance and financial services companies, primarily based on our innovative product features and our risk management strategies. We also compete based on brand recognition, financial strength, the breadth of our distribution platform and our customer service capabilities.

In recent years, we have experienced a dynamic competitive landscape, prompted by challenging global financial markets. We proactively monitor changes in the annuity marketplace, and have taken actions to adapt our products to the current environment in order to maintain appropriate return prospects and improve our risk profile. These actions have included variable annuity product modifications for new sales to adjust benefits pricing and commissions as well as closing of a share class. We also suspended or limited additional contractholder deposits for variable annuities with certain optional living benefit riders. Similarly, certain of our competitors have taken actions to modify benefits, to exit, or limit their presence in, the variable annuity marketplace. We believe our product offerings are competitive relative to substitute products currently available in the marketplace. In addition, we have introduced new products to broaden our offerings and diversify our risk profile and utilized external reinsurance as a form of risk mitigation, as discussed below, and have incorporated provisions in product design that allow frequent revisions of key pricing elements for new business. We continue to look for opportunities to further enhance and differentiate our current suite of products to attract new customers while responding to market conditions and managing risks.

Products

We offer certain variable annuities that provide our contractholders with tax-deferred asset accumulation together with a base death benefit and a suite of optional guaranteed living benefits (including versions with enhanced guaranteed minimum death benefits), and annuitization options. The majority of our currently sold contracts include an optional living benefit guarantee which provides, among other features, the ability to make withdrawals based on the highest

daily contract value plus a specified return, credited for a period of time. This contract value is a notional amount that forms the basis for determining periodic withdrawals for the life of the contractholder, and cannot be accessed as a lump sum surrender value. Certain optional living benefits can also be purchased with a companion optional death benefit, also based on a highest daily contract value.

The Prudential Premier® Retirement Variable Annuity with Highest Daily Lifetime Income ("HDI") v.3.0 offers lifetime income based on the highest daily account value plus a compounded deferral credit. Effective April 1, 2015, we entered into an agreement with Union Hamilton Reinsurance, Ltd. ("Union Hamilton"), an external counterparty, to reinsure approximately 50% of the HDI v.3.0 business. This reinsurance agreement covers most new HDI v.3.0 variable annuity business issued between April 1, 2015 and December 31, 2016 on a quota share basis, until Union Hamilton's quota share reaches $5 billion of new rider premiums through December 31, 2016.

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The Prudential Defined Income ("PDI") Variable Annuity complements the variable annuity products we offer with the highest daily benefit. PDI provides for guaranteed lifetime withdrawal payments, but restricts contractholder investment to a single bond sub-account within the separate account. PDI includes a living benefit rider which provides for a specified lifetime income withdrawal rate applied to the initial premium paid, subject to annual roll-up increases until lifetime withdrawals commence, but does not have the highest daily feature.

We also offer immediate annuities and variable annuities without guaranteed living benefits. We offer the Prudential Immediate Income Annuity, which is a fixed single premium immediate annuity that provides fixed payments over a specific time period and the Prudential Premier® Investment Variable Annuity, which offers tax-deferred asset accumulation, annuitization options and an optional death benefit that guarantees the contractholder's beneficiary a return of total purchase payments made to the contract, adjusted for any partial withdrawals, upon death.

Excluding our PDI product, the majority of our variable annuities generally provide our contractholders with the opportunity to allocate purchase payments to sub-accounts that invest in underlying proprietary and/or non-proprietary mutual funds, frequently under asset allocation programs. Certain products also allow or require allocation to fixed-rate accounts that are invested in the general account and are credited with interest at rates we determine, subject to certain minimums. We also offer fixed annuities that provide a guarantee of principal and interest credited at rates we determine, subject to certain contractual minimums. Certain allocations made in the fixed-rate accounts of our variable annuities and certain fixed annuities impose a market value adjustment if the invested amount is not held to maturity.

In addition, most contracts also guarantee the contractholder's beneficiary a return of total purchase payments made to the contract, adjusted for any partial withdrawals, upon death. Certain inforce contracts include guaranteed benefits which are not currently offered, such as annuitization benefits based on a guaranteed notional amount and benefits payable at specified dates after the accumulation period.

For information regarding the risks inherent in our products and the mitigants we have in place to limit our exposure to these risks, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities—Variable Annuity Risks and Risk Mitigants."

Marketing and Distribution

Our annuity products are distributed through a diverse group of third-party broker-dealers and their representatives, in banks and wirehouses, and through independent financial planners. Additionally, our variable annuity products are distributed through financial professionals, including those associated with Prudential Advisors, our domestic national sales organization, and the agency distribution force of The Allstate Corporation ("Allstate"). Our distribution efforts are supported by a network of internal and external wholesalers.

Underwriting and Pricing

We earn asset management fees determined as a percentage of the average assets of the mutual funds in our variable annuity products, net of sub-advisory expenses related to non-proprietary sub-advisors. Additionally, we earn mortality and expense and other fees for various insurance-related options and features based on the average daily net asset value of the annuity separate accounts, account value, premium, or guaranteed value, as applicable. We also receive administrative service and distribution fees from many of the proprietary and non-proprietary mutual funds.

We price our variable annuities based on an evaluation of the risks assumed and consideration of applicable risk management strategies, including hedging and reinsurance costs. Our pricing is also influenced by competition and

assumptions regarding contractholder behavior, including persistency, benefit utilization and the timing and efficiency of withdrawals for contracts with living benefit features, as well as other assumptions. Significant deviations in actual experience from our pricing assumptions could have an adverse or positive effect on the profitability of our products. To encourage persistency, most of our variable and fixed annuities have surrender or withdrawal charges for a specified number of years. In addition, the living benefit features of our variable annuity products encourage persistency because the potential value of the living benefit is fully realized only if the contract persists.

We price our fixed annuities and the fixed-rate accounts of our variable annuities based on assumed investment returns, expenses, competition and persistency, as well as other assumptions. We seek to maintain a spread between the return on our general account invested assets and the interest we credit on our fixed annuities and the fixed-rate accounts of our variable annuities.

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Reserves

We establish reserves for our annuity products in accordance with U.S. GAAP. We use current best estimate assumptions when establishing reserves for our guaranteed minimum death and income benefits, including assumptions such as interest rates, equity returns, persistency, withdrawal, mortality and annuitization rates. Certain of the living benefit guarantee features on variable annuity contracts are accounted for as embedded derivatives and are carried at fair value. The fair values of these benefit features are calculated as the present value of future expected benefit payments to contractholders less the present value of future expected rider fees attributable to the embedded derivative feature and are based on assumptions a market participant would use in valuing these embedded derivatives. For life contingent payout annuity contracts, we establish reserves using best estimate assumptions with provisions for adverse deviations as of inception or best estimate assumptions as of the most recent loss recognition event. For variable and fixed annuity contracts, we establish liabilities for contractholders' account balances that represent cumulative deposits plus credited interest, less withdrawals, mortality and expense charges. Policyholders' account balances also include provisions for non-life contingent payout annuity benefits.

Retirement

Our Retirement segment, which we refer to in the marketplace as Prudential Retirement, provides retirement investment and income products and services to retirement plan sponsors in the public, private, and not-for-profit sectors. Our full service business provides recordkeeping, plan administration, actuarial advisory services, tailored participant education and communication services, trustee services and institutional and retail investments. We service defined contribution, defined benefit and non-qualified plans, and for clients with combinations of these plans, we offer integrated recordkeeping services. We also provide certain brokerage services through our broker-dealer, Prudential Investment Management Services LLC, and trust services through Prudential Bank & Trust, FSB ("PB&T"), a limited purpose trust-only institution. Our institutional investment products business offers investment-only stable value products, pension risk transfer solutions and other payout annuities, including guaranteed investment contracts ("GICs"), funding agreements, structured settlement annuities and other group annuities for defined contribution plans, defined benefit plans, non-qualified plans, and individuals.

Competition

The Retirement segment competes with other large, well-established insurance companies, asset managers, recordkeepers and diversified financial institutions. In our full service business, we compete primarily based on pricing, the breadth of our service and investment offerings, investment performance, and our ability to offer product features to meet the retirement income needs of our clients. We collect revenue based on assets or per participant charges for plan administration, recordkeeping and employee education services. We continue to have heightened pricing pressures, driven by competition, contractual limits on fee income, the increasing presence of intermediaries and regulations requiring more standard and consistent fee disclosures across industry providers. Additionally, we have seen slow case turnover in our mid to large case target markets.

In our institutional investment products business, we compete primarily based on our pricing and structuring capabilities, as well as our ability to offer innovative product solutions and successfully execute large-scale transactions. Sales of institutional investment products are affected by competitive factors such as investment performance, company credit and financial strength ratings, product design, marketplace visibility, distribution capabilities, fees, crediting rates, and customer service. We are a leader in providing innovative pension risk management solutions to plan sponsors and in the stable value wrap market. We believe the pension risk transfer market continues to offer attractive opportunities that are aligned with our expertise. Previous rapid growth in our investment-only stable value product has slowed as competitive supply has increased to meet demand. For certain other institutional investment products, issuances over the past several years were impacted by unfavorable economic

conditions and other competitive factors. We have recently experienced an increase in new issuances of certain of these products; however, maturing contracts continue to outpace new issuances.

Products and Services

Full Service

Our full service business offers plan sponsors and their participants a broad range of products and services to assist in the delivery and administration of defined contribution, defined benefit, and non-qualified plans, including recordkeeping and administrative services, comprehensive investment offerings and consulting services to assist plan sponsors in managing fiduciary obligations. As part of our investment products, we offer a variety of general and separate account stable value products and other fee-based separate accounts, as well as retail mutual funds and institutional funds advised by affiliated and non-affiliated investment managers. In addition, certain products are marketed and sold on an investment-only basis through our full service distribution channels.

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Our full service general account and separate account stable value products contain an obligation to pay interest at a specified rate for a specific period of time and to repay account balances or market value upon contract termination. These stable value products are either fully or partially participating, with annual or semi-annual rate resets subject to certain contractual minimums, giving effect to previous investment experience. We earn profits from partially participating products from the spread between the rate of return we earn on the investments and the interest rates we credit, less expenses. In addition, we may earn administrative fees for providing recordkeeping and other administrative services for both fully and partially participating products.

We also offer fee-based products, through which customer funds are held in separate accounts, retail mutual funds, institutional funds, or a client-owned trust. These products generally pass all of the investment results to the customer. In certain cases, these contracts are subject to a minimum interest rate guarantee backed by the general account. Additionally, we offer guaranteed minimum withdrawal benefits associated with certain defined contribution accounts, and hedge certain of the related risks utilizing externally purchased hedging instruments.

Our full service fee-based advisory offerings are supported by participant communications and education programs, and a broad range of plan consulting services, including non-discrimination testing, plan document services, signature-ready documents for required filings, and full actuarial support for defined benefit plans. Additional services include non-qualified deferred compensation plan administration, including executive benefit solutions and financing strategies, investment advisory services, and merger and acquisition support.

Institutional Investment Products

Our institutional investment products business primarily offers products to the payout annuity and stable value markets.

Payout Annuity Markets. We offer products designed to provide a predictable source of monthly income, generally for the life of the participant. Our newer pension risk transfer products include portfolio-protected products and a longevity reinsurance product. Our portfolio-protected products are non-participating group annuity contracts which we issue to pension plan sponsors and assume all of the investment and actuarial risk associated with a group of specified participants within a plan in return for a premium typically paid as a lump sum at inception. These products have economic features similar to our legacy general account annuity contracts, discussed below, but may also offer the added protection of an insulated separate account. Our longevity reinsurance product is a reinsurance contract from which we earn a fee for assuming the longevity risk of pension plans that have been insured by third-parties, typically with monthly net settlements of premiums and benefits. As of December 31, 2015, our pension risk transfer business in force had an approximate average age of 73.

Our legacy products include structured settlements, voluntary income products and other group annuities, which fulfill the payment guarantee needs of the personal injury lawsuit settlement market, the distribution needs of defined contribution participants and the payment obligations of defined benefit plans, respectively. For our general account products, we bear all of the investment, mortality, retirement, asset/liability management, and expense risk associated with these contracts. Our profits reflect the emerging experience related to investment returns, timing of mortality, timing of retirement, and the level of expenses being more or less favorable than assumed in the original pricing. Our separate account products are primarily fee-based products that cover payments to be made to defined benefit plan retirees. These contracts permit a plan sponsor to retain the risks and rewards of investment and actuarial results while receiving a general account guarantee for all annuity payments covered by the contract.

Stable Value Markets. We manufacture investment-only products for use in retail and institutional capital markets and qualified plan markets. Our primary stable value product offerings are investment-only wraps through which customers' funds are held in a client-owned trust. These are participating contracts for which investment results pass

through to the customer, subject to a minimum interest rate guarantee backed by the general account, and we earn fees for providing this guarantee. For contracts currently in force, the minimum interest rate has a floor of zero percent. The fees we earn for providing this guarantee may be reset as defined by the underlying contracts. Contractholders are provided with proprietary and non-proprietary flexible fund investment alternatives.

We also offer investment-only general account products in the form of GICs and funding agreements. These products contain an obligation to pay interest at a specified rate and to repay principal at maturity or following contract termination. Because these obligations are backed by our general account, we bear the investment and asset/liability management risk associated with these contracts. Generally, profits from these products result from the spread between the rates of return we earn on the investments and the interest rates we credit, less expenses.

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Marketing and Distribution

We distribute our products through a variety of channels. In our full service business, our dedicated sales and support teams manage our distribution efforts in offices across the country. We sell our products and services through third-party financial advisors, brokers, and benefits consultants and, to a lesser extent, directly to plan sponsors. Our clients typically prefer to transition plans either at the beginning or end of their fiscal year, which are generally during our fourth quarter.

In our stable value area within our institutional investment products business, we utilize our direct sales force and intermediaries to distribute investment-only stable value wraps and traditional GICs to plan sponsors and stable value fund managers, and to distribute funding agreements to investors. We also manage a global Funding Agreement Notes Issuance Program, pursuant to which a statutory trust issues medium-term notes secured by funding agreements issued to the trust by Prudential Insurance. Prudential Insurance may also issue funding agreements directly to the Federal Home Loan Bank of New York.

In our payout annuity area within our institutional investment products business, our pension risk transfer products, traditional group annuities and participating separate account annuities are typically distributed through actuarial consultants and third-party brokers. Structured settlements are distributed through structured settlement specialists. Voluntary income products are distributed through the defined contribution portion of our full service business, directly to plan sponsors, or as part of annuity price quoting services.

Underwriting and Pricing

We set our rates for our full service and institutional investment products using pricing models that consider the investment environment and our risk, expense and profitability targets. In addition, for products within our payout annuity area, our models also use assumptions for mortality and, if pertinent, early retirement risks. These assumptions may be less predictable in certain markets, and deviations in actual experience from pricing assumptions could affect the profitability of these products. For our investment-only stable value wrap product, our pricing risk is mitigated by several features, including: the fees we earn for providing a guaranteed rate of return may be reset, as defined by the underlying contracts; the contracts allow participants to withdraw funds at book value, while contractholder withdrawals occur at market value immediately or at book value over time; and our obligation is limited to payments that are in excess of the fund value.

Reserves

We establish reserves for our retirement products in accordance with U.S. GAAP. We use best estimate assumptions with provisions for adverse deviation as of inception or best estimate assumptions as of the most recent loss recognition event when establishing reserves for future policyholder benefits and expenses, including assumptions for investment yield, expenses, mortality rates and retirement. Future policyholder benefit reserves also include amounts related to deferred profit liabilities, where applicable. We also establish liabilities for policyholders' account balances and additional reserves for investment experience that will accrue to the customer but have not yet been reflected in credited rates. Policyholders' account balances also include provisions for non-life contingent payout annuity benefits.

Asset Management

Effective January 1, 2016, the Asset Management segment, formerly known in the marketplace as Prudential Investment Management, has rebranded as PGIM, The Global Investment Management Businesses of Prudential Financial, Inc.

The Asset Management segment provides a broad array of 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 as well as other Prudential businesses. We also invest in asset management and investment distribution businesses in targeted countries, including through investments in operating joint ventures, to expand our mass affluent customer base outside the U.S. and to increase our global assets under management.

We earn asset management fees which are typically based upon a percentage of assets under management. In certain asset management arrangements, we also receive performance-based incentive fees when the return on the managed assets exceeds certain benchmark returns or other performance targets. Transaction fees are earned as a percentage of the transaction price associated with the sale or purchase of assets in certain funds, primarily related to real estate. In addition, we earn investment returns from strategic investing and revenues from commercial mortgage origination and servicing.

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Competition

The Asset Management segment competes with numerous asset managers and other financial institutions. For our asset management products, we compete based on a number of factors, including investment performance, strategy and process, talent, organizational stability and client relationships. We offer products across multiple asset classes, with specialized investment teams that employ approaches designed to add value in each product area or asset class. Our organizational stability and robust institutional and retail businesses have helped attract and retain talent critical to delivering investment results for clients. Our private placement and commercial mortgage businesses compete based on price, terms, execution and the strength of our relationship with the borrower. Competition will vary depending on the product or service being offered.

Products and Services

We offer asset management services for public and private fixed income, public equity and real estate, as well as commercial mortgage origination and servicing, and mutual funds and other retail services through the following eight businesses:

Prudential Fixed Income, a PGIM Business. Prudential Fixed Income manages assets for a wide range of clients worldwide through our operations in Newark, London, Singapore and Tokyo. Our products include traditional broad market fixed income and single-sector strategies, traditional and customized asset/liability strategies, hedge strategies and collateralized loan obligations. Prudential Fixed Income also serves as a non-custodial securities lending agent. Portfolios are managed by seasoned portfolio managers across sector specialist teams supported by significant credit research, quantitative research and risk management organizations.

Jennison Associates. Jennison Associates LLC, a wholly-owned registered investment adviser, provides discretionary and non-discretionary asset management services by managing a range of publicly-traded equity, balanced and fixed income portfolios that span market capitalizations, investment styles and geographies. Jennison Associates uses fundamental, team-based research to manage portfolios for institutional, private and sub-advisory clients, including mutual funds.

Quantitative Management Associates. Quantitative Management Associates LLC, a wholly-owned registered investment adviser, provides discretionary and non-discretionary asset management services to a wide range of clients by managing a broad array of publicly-traded equity asset classes using various investment styles. Quantitative Management Associates manages equity and asset allocation portfolios for institutional and sub-advisory clients, including mutual funds, using proprietary quantitative processes tailored to meet client objectives.

Prudential Capital Group. Prudential Capital Group provides asset management services by investing in private placement investment grade and below investment grade debt and mezzanine debt and equity securities, with a majority of the private placement investments being originated by our staff. These investment capabilities are utilized by our general account and institutional clients through direct advisory accounts, insurance company separate accounts, and private fund structures.

PGIM Real Estate Finance. PGIM Real Estate Finance provides commercial mortgage origination, asset management and servicing for our general account, institutional clients, and government sponsored entities such as Fannie Mae, the Federal Housing Administration and Freddie Mac, and as a minority interest joint venture partner and service provider to originate commercial mortgages for future securitization.

PGIM Real Estate. PGIM Real Estate provides asset management services for single-client and commingled private and public real estate portfolios, and manufactures and manages a variety of real estate investment vehicles investing

in private and public real estate, primarily for institutional clients through offices worldwide. Our domestic and international real estate investment vehicles range from fully diversified open-end funds to specialized closed-end funds that invest in specific types of properties or designated geographic regions or follow other specific investment strategies. Our global real estate organization has an established presence in the U.S., Europe, Asia and Latin America.

Prudential Investments. Prudential Investments manufactures, distributes and services investment management products primarily utilizing proprietary asset management expertise in the U.S. retail market. These products are designed to be sold primarily by financial professionals including third-party advisors and licensed sales professionals within Prudential Advisors. We offer a family of retail investment products consisting of over 60 mutual funds as of December 31, 2015. These products cover a wide array of investment styles and objectives designed to attract and retain assets of individuals with varying objectives and to accommodate investors' changing financial needs.

Prudential International Investments, a PGIM Business. Prudential International Investments manufactures proprietary products and distributes both proprietary and non-proprietary products tailored to meet client needs. Our international investment operations primarily consist of our asset management operations in Taiwan, and our operating joint ventures in Brazil, India and Italy that are accounted for under the equity method.

In addition, we make strategic investments to support the creation and management of funds offered to third-party investors in private and public real estate, fixed income and public equities asset classes. 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). We also make loans to, and guarantee obligations of, our managed funds that are secured by equity commitments from investors or assets of the funds.

Marketing and Distribution

We provide investment management services for our institutional customers through a proprietary sales force organized by each asset management business. Each business has an independent marketing and service team working with clients. Institutional asset management services are also offered through the Retirement segment.

Most of the retail customer assets under management are invested in our mutual funds and our variable annuities and variable life insurance products. These assets are gathered by distribution forces associated with other Prudential businesses and by third-party networks. Additionally, we work with third-party product manufacturers and distributors to include our investment options in their products and platforms.

We also provide investment management services across a broad array of asset classes for our general account, as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—General Account Investments."

U.S. Individual Life and Group Insurance Division

The U.S. Individual Life and Group Insurance division conducts its business through the Individual Life and Group Insurance segments.

Individual Life

Our Individual Life segment manufactures and distributes individual variable life, term life and universal life insurance products primarily to the U.S. mass middle, mass affluent and affluent markets. In general, we consider households with investable assets or annual income in excess of $100,000 to be mass affluent and households with investable assets in excess of $250,000 to be affluent in the U.S. market. Our life products are distributed through independent third-party distributors and licensed sales professionals within Prudential Advisors.

On January 2, 2013, we acquired The Hartford Financial Services Group's individual life insurance business through a reinsurance transaction. Under the agreement, we paid cash consideration of $615 million, primarily in the form of a ceding commission, to provide reinsurance for approximately 700,000 life insurance policies with a net retained face amount in force of approximately $141 billion. This acquisition increased our scale in the U.S. individual life insurance market, particularly universal life products, and provided complementary distribution opportunities through expanded wirehouse and bank distribution channels.

Competition

The Individual Life segment competes with other large, well-established life insurance companies in a mature market. We compete primarily based on price, service, distribution channel relationships, brand recognition and financial strength. Due to the large number of competitors, pricing is competitive. Factors that could influence our ability to

competitively price products while achieving targeted returns include the level, cost and availability of financing for statutory reserves required for certain term and universal life insurance policies, the availability, utilization and timing of tax deductions associated with statutory reserves, product designs that impact the amount of statutory reserves and the associated tax deductions, the level and volatility of interest rates, and our expense structure.

We periodically adjust product prices and features based on the market and our strategy, which allows us to manage the Individual Life business for steady, consistent sales growth across a balanced product portfolio and to avoid over-concentration in any one product type. These actions, and the actions of competitors, can impact our sales levels from period to period.

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Products

Our primary insurance products are term life, variable life, guaranteed universal life and all other universal life, which represent 42%, 34%, 15% and 8%, respectively, of our face amount of individual life insurance in force, net of reinsurance as of December 31, 2015. Our product diversification strategy has decreased the proportional contribution to sales of guaranteed universal life and increased the proportion of other products. This strategy has positioned us to better balance portfolio risk and enhance our value proposition to our distribution partners and their clients. Additionally, most of our variable and universal life products now offer a policy rider that allows death benefits to be accelerated to the policyholder during a chronic or terminal illness, under certain contractual requirements.

Term Life Insurance. We offer a variety of term life insurance products that provide coverage for a specified time period. Most term products include a feature that allows the policyholder to convert the policy into permanent life insurance coverage. We also offer term life insurance that provides for a return of premium if the insured is alive at the end of the level premium period. There continues to be significant demand for term life insurance protection.

Variable Life Insurance. We offer several individual variable life insurance products that give the policyholder the flexibility to change both the death benefit and premium payments, and provide the potential to earn returns linked to an underlying investment portfolio that the policyholder selects. The policyholder generally can make deposits for investments in a fixed-rate option which is part of our general account or in separate account investment options consisting of equity and fixed income funds. Funds invested in the fixed-rate option provide a guarantee of principal and are credited with interest at rates that we determine, subject to certain contractual minimums. In the separate accounts, the policyholder bears the fund performance risk. We also offer a variable life product that has an optional flexible guarantee against lapse where policyholders can select the guarantee period. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance. A meaningful portion of Individual Life’s profits, however, is associated with our large in force block of variable policies which are expected to run off over time as policies age.

Universal Life Insurance. We offer universal life insurance products that feature flexible premiums and a crediting rate that we determine, subject to certain contractual minimums. Guaranteed universal life products provide a guarantee of death benefits to remain in force when a policy would otherwise lapse due to insufficient cash value. We also offer universal life insurance products that allow the policyholder to allocate all or a portion of their account balance into an index account. The index account provides interest or an interest component linked to, but not an investment in, S&P 500 index performance over the following year, subject to certain participation rates and contractual minimums and maximums. Mortality and expense margins and net interest spread impact Individual Life’s profits from universal life insurance.

Marketing and Distribution

Individual Life provides products to the U.S. mass and mass affluent markets through the following two channels:

Third-Party Distribution. Our individual life products are offered through a variety of third-party channels, including independent brokers, wirehouses, banks, general agencies and producer groups. We focus on sales through independent intermediaries who provide life insurance solutions to protect individuals, families and businesses and support estate and wealth transfer planning.

Prudential Advisors. Prudential’s national in-house sales agency, formerly known as Agency Distribution, was renamed Prudential Advisors to more accurately reflect the role that its financial professionals play in the marketplace, as well as to better align with the array of financial products and services they offer. It distributes Prudential variable, term and universal life insurance, variable and fixed annuities and investment products with proprietary and

non-proprietary investment options. It also distributes selected insurance and investment products from other carriers and has access to non-proprietary property and casualty products distributed under agreements with the purchasers of our property and casualty insurance operations, which we sold in 2003, and other third-party providers. In addition, Prudential Advisors offers certain retail brokerage and retail investment advisory services through our dually registered broker-dealer and investment adviser, Pruco Securities, LLC. These services include brokerage accounts, discretionary and non-discretionary investment advisory programs and financial planning services.

Individual Life is paid a market rate by the Annuities and Asset Management segments to distribute their products. Any profit or loss is included in the results of the Individual Life segment and eliminated in consolidation.

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Underwriting and Pricing

Underwriters assess and quantify the risk of our individual life insurance products based on the age, gender, health and occupation of the applicant and amount of insurance requested. We continually update our guidelines to keep pace with changes in healthcare, research, and experience. We base premiums and policy charges for individual life insurance on expected death benefits, surrender benefits, expenses and required reserves. We use assumptions for mortality and morbidity, interest rates, expenses, policy persistency, premium payment patterns, separate account fund performance and product-generated tax deductions, as well as the level, cost and availability of financing certain statutory reserves, in pricing policies. Deviations in actual experience from our pricing assumptions may adversely or positively impact the profitability of our products.

Reserves

We establish reserves for individual life products in accordance with U.S. GAAP. For term life insurance contracts and other benefits with fixed and guaranteed terms, we use best estimate assumptions with provisions for adverse deviation as of inception when establishing reserves for future policyholder benefits and expenses including assumptions for mortality and morbidity, investment yield, expenses, and policy persistency. We use current best estimate assumptions when establishing reserves for no lapse guarantees. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported. For variable and universal life insurance contracts, we establish liabilities for policyholders' account balances. These liabilities represent cumulative deposits plus credited interest, less withdrawals, and expense and cost of insurance charges, as applicable. Policyholders' account balances also include unearned revenue reserves calculated based on current best estimate assumptions.

Reinsurance

The Individual Life segment uses reinsurance as a means of managing mortality volatility and risk capacity, which can impact product profitability. On policies sold since 2000, we have reinsured a significant portion of the mortality risk assumed, with that portion varying over time depending on market factors and strategic objectives. Commencing in 2013, the maximum exposure we retain for new business is $20 million on both single life policies and second-to-die policies. Over time we have accumulated policies with higher retained exposure which may result in earnings volatility. In addition, certain transactions, such as assumed reinsurance or acquisitions of in force contracts, may cause us to temporarily or permanently exceed this limit on an aggregate basis. We remain liable if a third-party reinsurer is for some reason unable to meet its obligations. On a Company-wide basis, we evaluate the financial condition of reinsurers and monitor the concentration of counterparty risk to mitigate this exposure.

Group Insurance

Our Group Insurance segment offers a full range of group life, long-term and short-term group disability, and group corporate-, bank- and trust-owned life insurance in the U.S. primarily to institutional clients for use in connection with employee plans and affinity groups. We also sell accidental death and dismemberment and other ancillary coverages, and provide plan administrative services in connection with our insurance coverages.

Competition

We compete with other large, well-established life and health insurance providers in mature U.S. markets, and are a top provider of both group life and disability insurance. We compete primarily based on price, brand recognition, service capabilities, customer relationships, financial strength and range of product offerings. Pricing of group insurance products reflects the large number of competitors in the marketplace. The majority of our premiums are derived from large corporations, affinity groups or other organizations having over 10,000 insured individuals.

Employee-paid (voluntary) coverage has become increasingly important as employers attempt to control costs and shift benefit decisions and funding to employees who continue to value benefits offered at the workplace. Our profitability is dependent, in part, on penetration in the voluntary coverage marketplace, which will be affected by future employment and compensation rates.

Products

Group Life Insurance. Our portfolio of group life insurance products consists of employer-paid (basic) and employee-paid coverages, including term life insurance for employees and employees' dependents as well as group universal life insurance. We offer group variable universal life insurance, basic and voluntary accidental death and dismemberment insurance, business travel accident insurance, a critical illness product and an accident insurance product. Many of our employee-paid coverages allow employees to retain their coverage when they change employers or retire. We also offer waiver of premium coverage where required premiums are waived in the event the insured suffers a qualifying disability.

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Our group corporate-, bank- and trust-owned life insurance products are group variable life insurance contracts utilizing separate accounts, and are typically used by large corporations to fund deferred compensation plans and benefit plans for retired employees.

Group Disability Insurance. We offer short- and long-term group disability insurance, which protects against loss of wages due to illness or injury, as well as plan administrative services and absence management services. Disability benefits are limited to a portion, generally 50% to 70%, of the insured's earned income up to a specified maximum benefit. Short-term disability generally provides a weekly benefit for three to six months, while long-term disability benefits are paid monthly, following a waiting period (usually 90 or 180 days, during which short-term disability may be provided) and generally continue until the insured returns to work or reaches normal retirement age.

Marketing and Distribution

Group Insurance offers its portfolio of products and customized benefit solutions through its own dedicated sales force that is organized around market segments and distributes primarily through employee benefit brokers and consultants.

Underwriting and Pricing

We price each product line using underwriting practices and rating systems that consider Company, industry and/or other experience. We assess the risk profile of prospective insured groups; however, certain voluntary products or coverages may require underwriting on an individual basis. We are not obligated to accept any individual certificate application, and may require a prospective insured to submit evidence of insurability.

We maintain a disciplined approach to pricing our group life and disability insurance products. We base pricing of group insurance products on the expected pay-out of benefits and other costs that we calculate using assumptions for mortality and morbidity rates, interest rates and expenses, depending upon the specific product features. On many of our group policies, we provide multiple year rate guarantees, which can contribute to fluctuations in profitability. For certain policies with experience-rated return provisions, the final premium is adjusted to reflect the client's actual experience during the past year. For these policies, the group contractholder bears some of the risk, or receives some of the benefit, associated with claim experience fluctuations, thus lessening the fluctuations in profitability.

Reserves

We establish reserves for group insurance products in accordance with U.S. GAAP. We primarily use current best estimate assumptions when establishing reserves for future policyholder benefits and expenses including assumptions for mortality, morbidity and claim termination rates, interest rates and Social Security offsets. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported. We also establish liabilities for policyholders' account balances that represent cumulative deposits plus credited interest, less withdrawals, and expense and cost of insurance charges, as applicable.

Reinsurance

We use reinsurance primarily to limit losses from large claims, and in response to client requests. We remain liable if a third-party reinsurer is for some reason unable to meet its obligations. On a Company-wide basis, we evaluate the financial condition of reinsurers and monitor concentration of counterparty risk to mitigate this exposure.

International Insurance Division

The International Insurance division conducts its business through the International Insurance segment.

International Insurance

Our International Insurance segment manufactures and distributes individual life insurance, retirement and related products, including certain health products with fixed benefits. We provide these products to the broad middle income and mass affluent markets across Japan through multiple distribution channels including banks, independent agencies and Life Consultants associated with our Gibraltar Life Insurance Company, Ltd. ("Gibraltar Life") operations. We also provide similar products to the mass affluent and affluent markets through our Life Planner operations in Japan, Korea and other countries outside the U.S., including Taiwan, Italy, Brazil, Argentina, Poland and Mexico. We continue to seek opportunities for expansion into high-growth markets in targeted countries.

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For the year ended December 31, 2015, our Life Planner and Gibraltar Life operations in Japan represented 37% and 51%, respectively, of the net premiums, policy charges and fee income of the International Insurance segment and, in aggregate, represented 36% of the net premiums, policy charges and fee income of Prudential Financial, translated on the basis of weighted average monthly exchange rates.

In addition to the operations discussed above, as of December 31, 2015, we have a 26% interest in a life insurance joint venture in India and a 70% interest in an established life insurance business in Malaysia.

We manage each operation on a stand-alone basis through local management and sales teams, with oversight by senior executives based in Newark, New Jersey and outside the United States. Each operation has its own marketing, underwriting, claims, investment management and actuarial functions. In addition, significant portions of the general account investment portfolios are managed by our Asset Management segment, primarily through international subsidiaries. Operations generally invest in local currency denominated securities, primarily bonds issued by the local government or its agencies. In our larger operations, we have more diversified portfolios that also include U.S. dollar-denominated investments, in large part to support products issued in U.S. dollars and as part of our foreign exchange hedging strategy. Our Gibraltar Life operations also have Australian dollar-denominated investments that support products issued in that currency.

Competition

The life insurance markets in Japan and Korea are mature and pricing is competitive. Rather than competing primarily based on price, we generally compete on the basis of customer service, including our needs-based approach to selling, the quality and diversity of our distribution capabilities, and our financial strength. Demographic trends in Asia suggest that our target market is increasing as the percentage of the population between the ages of 20 and 65 increases over the next few decades. This creates an increasing opportunity for product innovation, introducing insurance products that allow for savings and income as a growing portion of the population prepares for retirement. Further, as many Asian insurers focus on entering other markets, we have the opportunity to continue to build our presence in the Asian markets we currently serve. The ability to sell through multiple and complementary distribution channels is also a competitive advantage; however, competition for sales personnel, as well as access to third-party distribution channels, is intense.

Products

Our international insurance operations have a diversified product mix, primarily denominated in local currencies and emphasizing death protection while supporting the growing demand for retirement and savings products. We classify our products into four general categories: life insurance protection, retirement, annuity and accident & health, which represented 59%, 18%, 16% and 7%, respectively, of full year 2015 annualized new business premiums on a constant exchange rate basis. Each product category is described below:

Life Insurance Protection Products. We offer various traditional whole life products that provide either level or increasing coverage, and offer limited or lifetime premium payment options. We also offer increasing, decreasing and level benefit term insurance products that provide coverage for a specified time period, as well as protection-oriented variable universal life products. Some of these protection products are denominated in U.S. dollars and some are sold as bundled products which, in addition to death protection, include health benefits or savings elements.

Retirement Products. We offer a variety of retirement products, including endowments, savings-oriented variable universal life and retirement income. Endowments provide payment of the face amount on the earlier of death or policy maturity. Variable universal life products provide a non-guaranteed return linked to an underlying investment portfolio of equity and fixed income funds selected by the customer. Retirement income products combine insurance

protection similar to term life with a lifetime income stream which commences at a predefined age.

Annuity Products. Annuity products are primarily represented by U.S. and Australian dollar-denominated fixed annuities sold by our Gibraltar Life operations. Sales and surrenders of non-yen products are sensitive to foreign currency relationships which are impacted by, among other things, the comparative interest rates in the respective countries. Most of our annuity products impose a market value adjustment if the contract is not held to maturity.

Accident and Health Products. In most of our operations, we offer accident and health products with fixed benefits. These products provide benefits to cover accidental death and dismemberment, hospitalization, surgeries, and cancer and other dread diseases, most of which are sold as supplementary riders and not as stand-alone products. We also offer waiver of premium coverage where required premiums are waived in the event the customer suffers a qualifying disability.

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Marketing and Distribution

Our International Insurance segment distributes its products through multiple distribution channels, including two captive agent models, Life Planners and Life Consultants, as well as bank and independent agency third-party distribution channels. For additional information on headcount for our captive agents, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations by Segment—International Insurance Division."

Life Planners. Our Life Planner model differentiates us from competitors in the countries where we do business by focusing on selling protection-oriented life insurance products on a needs basis to mass affluent and affluent customers, as well as retirement-oriented products to small businesses. We believe that our recruiting and selection process, training programs and compensation packages are key to the Life Planner model and have helped our Life Planner operations achieve higher rates of agent retention, agent productivity and policy persistency than our local competitors. The attributes considered when recruiting new Life Planners generally include but are not limited to: university or college degree, no prior life insurance sales experience, a minimum of two years of sales or sales management experience, and a pattern of job stability and success. The number of Life Planners as of December 31, 2015 and 2014, was 7,592 and 7,352, respectively.

Life Consultants. Our Life Consultants are the proprietary distribution force for products offered by our Gibraltar Life operations. Their focus is to provide individual protection products to the broad middle income market, primarily in Japan, particularly through relationships with affinity groups. Our Life Consultant operation is based on a variable compensation plan designed to improve productivity and persistency that is similar to compensation plans in our Life Planner operations. The number of Life Consultants in Japan as of December 31, 2015 and 2014, was 8,805 and 8,707, respectively.

Bank Distribution Channel. Bank distribution channel sales primarily consist of life insurance products intended to provide savings features, premature death protection and estate planning benefits as well as fixed annuity products primarily denominated in U.S. and Australian dollars. We view the bank distribution channel as an adjunct to our core Life Planner and Life Consultant distribution channels and will continue to pursue this channel with a focus on profitable growth.

A significant portion of our sales in Japan through our bank channel distribution are derived through a single Japanese mega-bank; however, we have relationships with each of Japan's four largest banks as well as many regional banks, and we continue to explore opportunities to expand our distribution capabilities through this channel, as appropriate.

Independent Agency Distribution Channel. Our independent agency channel sells protection products and high cash value products for retirement benefits through the business market and sells a variety of other products including protection, medical and fixed annuity products through the individual market. Our focus is to maintain a diverse mix of independent agency relationships including accounting firms, corporate agencies and other independent agencies with a balanced focus on individual and business markets. We differentiate ourselves by providing quality service to producers in this distribution channel.

Underwriting and Pricing

Our International Insurance segment is subject to substantial local regulation that is generally more restrictive for product offerings, pricing and structure than U.S. insurance regulation. Each International Insurance operation has its own underwriting department that employs variations of U.S. practices in underwriting individual policy risks. To the extent permitted by local regulation, we base premiums and policy charges for our products on expected death and morbidity benefits, surrender benefits, expenses, required reserves, interest rates, policy persistency and premium

payment patterns. In setting underwriting limits, we also consider local industry standards to prevent adverse selection and to stay abreast of industry trends. In addition, we set underwriting limits together with each operation's reinsurers.

Pricing of similar products among our various countries is designed to achieve a generally consistent targeted rate of return by product, with the competitive environment also being a contributing factor. The profitability of our products is impacted both positively and negatively by differences between actual mortality, morbidity, expense, and investment experience and the related assumptions used in pricing these policies. As a result, the profitability of our products can fluctuate from period to period. Interest rates guaranteed at issue under our insurance contracts may exceed the rates of return we earn on our investments and, as a result, we may experience negative spreads between the rate we guarantee and the rate we currently earn on investments. Additionally, profitability may also be affected by seasonal factors, such as common retirement dates for members of specific customer groups in the second quarter of each year, or the timing of new product introductions, sales campaigns, premium rate changes and changes in tax laws may also affect profitability.

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Reserves

We establish reserves for our international insurance products in accordance with U.S. GAAP. We primarily use best estimate assumptions with provisions for adverse deviation as of inception when establishing reserves for future policyholder benefits and expenses including assumptions for investment yield, persistency, expenses, mortality and morbidity rates. Future policy benefit reserves also include amounts related to our deferred profit liability, claims reported but not yet paid, and claims incurred but not yet reported. For variable and interest-sensitive life products, as well as most annuity products, we establish liabilities for policyholders' account balances that represent cumulative deposits plus credited interest, less withdrawals, and expense and cost of insurance charges, as applicable. Policyholders' account balances also include unearned revenue reserves calculated based on current best estimate assumptions and provisions for non-life contingent payout annuity benefits.

Reinsurance

International Insurance reinsures portions of its insurance risks, primarily mortality, with both selected third-party reinsurers and Prudential Insurance. We remain liable if a third-party reinsurer is for some reason unable to meet its obligations. On a Company-wide basis, we evaluate the financial condition of reinsurers and monitor the concentration of credit risk to mitigate this exposure.

Corporate and Other

Corporate and Other includes corporate items and initiatives that are not allocated to our business segments, and divested businesses, other than those that qualify for "discontinued operations" accounting treatment under U.S. GAAP. As described in "Demutualization and Elimination of the Separation of the Businesses" above, effective January 2, 2015, results of the Closed Block, along with certain related assets and liabilities, are reported as the Closed Block division and are accounted for as a divested business that is reported separately from the divested businesses included in Corporate and Other.

Corporate Operations

Corporate Operations consist primarily of: (1) capital that is not deployed in any business segments; (2) investments not allocated to business segments, including debt-financed investment portfolios, as well as tax credit investments and other tax-enhanced investments financed by business segments; (3) capital debt that is used or will be used to meet the capital requirements of the Company and the related interest expense; (4) our qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level activities, after allocations to business segments, including corporate governance, corporate advertising, philanthropic activities, deferred compensation, and costs related to certain contingencies and enhanced regulatory supervision; (6) certain retained obligations relating to pre-demutualization policyholders; (7) a life insurance joint venture and an asset management joint venture in China; (8) our Capital Protection Framework; (9) the foreign currency income hedging program used to hedge certain non-U.S. dollar denominated earnings in our International Insurance segment; and (10) transactions with and between other segments.

Corporate Operations include certain results related to our Capital Protection Framework ("the Framework"), which we employ as part of our capital management strategy. The framework considers potential capital consequences under a range of market related stresses and the strategies we use to mitigate them. For additional information on our Capital Protection Framework, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital—Capital Protection Framework."

Divested Businesses

Divested Businesses reflect the results of the following 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. We exclude these results from our adjusted operating income. See Note 22 to the Consolidated Financial Statements for an explanation of adjusted operating income.

Long-Term Care. In 2012, we discontinued sales of our individual and group long-term care insurance products. We establish reserves for these products in accordance with U.S. GAAP. We use best estimate assumptions with provisions for adverse deviation as of inception or best estimate assumptions as of the most recent loss recognition event when establishing reserves for future policyholder benefits and expenses, including assumptions for morbidity, mortality, persistency, expenses and interest rates. Our assumptions have also factored in our estimate of the timing and amount of anticipated premium increases which will require state approval. Reserves also include claims reported but not yet paid and claims incurred but not yet reported.

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Residential Real Estate Brokerage Franchise and Relocation Services. In 2011, we sold our real estate brokerage franchise and relocation services businesses to Brookfield Asset Management, Inc., but retained ownership of a financing subsidiary with debt and equity investments in a limited number of real estate brokerage franchises, which we have substantially exited.

Individual Health and Disability Insurance. We ceased writing individual disability income policies in 1992, and a year later ceased writing hospital expense and major medical policies. Most of our individual disability income policies are non-cancelable; however, we reinsured all of these policies as of July 1999. For our hospital expense and major medical policies, the 1996 Health Insurance Portability and Accountability Act guarantees renewal beyond age 65. Under certain circumstances, with appropriate approvals from state regulatory authorities, we are permitted to change the premiums charged for these policies if we can demonstrate the premiums have not been sufficient to pay claims. We establish reserves in accordance with U.S. GAAP for future policyholder benefits and expenses.

Other. In addition to the businesses described above, the results of Divested Businesses also include the following:

- On July 1, 2013, we sold our wealth management solutions business to Envestnet, Inc. We will continue to have an ongoing relationship with these operations until the contractual terms of the sale are fulfilled.
- In 2008, we announced our intention to exit our financial advisory business, which consisted of our investment in a retail securities brokerage and clearing operations joint venture which was sold on December 31, 2009. Certain expenses relating to the businesses we originally contributed to the joint venture were retained, primarily for litigation and regulatory matters.
- In 2003, we sold our property and casualty insurance companies to Liberty Mutual Group (“Liberty Mutual”). We have reinsured Liberty Mutual for adverse loss development for specific property and casualty risks that they did not want to retain. We believe that we have adequately reserved for our remaining property and casualty obligations under these reinsurance contracts based on the current information available.
- We have not actively engaged in the assumed life reinsurance market in the United States since the early 1990s; however, we remain subject to mortality risk for certain assumed individual life insurance policies under the terms of the reinsurance treaties. We establish reserves in accordance with U.S. GAAP for future policyholder benefits and expenses.

Discontinued Operations

Discontinued Operations reflect the results of businesses and of any direct real estate investments that qualified for “discontinued operations” accounting treatment under U.S. GAAP.

Closed Block Division

In connection with the demutualization in 2001, we ceased offering domestic participating individual life insurance and annuity products, under which policyholders are eligible to receive policyholder dividends reflecting experience. The liabilities for our individual in force participating products were segregated, together with assets to be used exclusively for the payment of benefits and policyholder dividends, expenses and taxes with respect to these products, in the Closed Block. We selected the amount of assets that were expected to generate sufficient cash flow, together with anticipated revenues from the Closed Block policies, over the life of the Closed Block to fund payments of all expenses, taxes, and policyholder benefits and to provide for the continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continued. We also segregated additional assets that we needed to hold outside the Closed Block to meet capital requirements related to the policies included within the Closed Block at the time of demutualization. No policies sold after demutualization have been added to the Closed Block, and its in force business is expected to decline as we pay policyholder benefits in full.

The results of the Closed Block, along with certain related assets and liabilities, comprise the Closed Block division, which is treated as a divested business under our definition of adjusted operating income and reported separately from other divested businesses. Prior to the repurchase of the Class B Stock and the resulting elimination of the distinction between the Financial Services Businesses and the Closed Block Business, the Closed Block formed the principal component of the Closed Block Business.

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As discussed in Note 12 to the Consolidated Financial Statements, if the performance of the Closed Block is more or less favorable than we originally assumed in funding, total dividends paid to Closed Block policyholders in the future may be greater or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed may be available for distribution over time to Closed Block policyholders as part of policyholder dividends unless offset by future Closed Block experience that is less favorable than expected. These cash flows will not be available to shareholders. A policyholder dividend obligation liability is established for any excess cash flows. Each year, the Board of Directors of Prudential Insurance 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. See Note 22 to the Consolidated Financial Statements for revenues, income and loss, and total assets of the Closed Block division.

Our strategy is to maintain the Closed Block as required by our Plan of Reorganization over the time period of its gradual diminishment as policyholder benefits are paid in full. We are permitted under the Plan of Reorganization, with the prior consent of the New Jersey Commissioner of Banking and Insurance, to enter into agreements to transfer to a third-party all or any part of the risks under the Closed Block policies.

Effective January 1, 2015, we entered into a reinsurance agreement with a wholly-owned subsidiary of Prudential Insurance, Prudential Legacy Insurance Company of New Jersey ("PLIC"), pursuant to which Prudential Insurance reinsured substantially all of the outstanding liabilities of the Closed Block into a statutory guaranteed separate account of PLIC, primarily on a coinsurance basis. Under the reinsurance agreement with PLIC, approximately $57 billion of Closed Block assets were transferred to PLIC. Consistent with the participating nature of the Closed Block policies and contracts, experience of the Closed Block is ultimately passed along to policyholders over time through adjustments of the annual policyholder dividend scale. Prior to entering into the reinsurance agreement with PLIC, Prudential Insurance reinsured a substantial portion of the Closed Block liabilities to third-party and affiliated reinsurers. The results of these reinsurance arrangements were reported through December 31, 2014 within Corporate and Other operations. See Note 13 to the Consolidated Financial Statements for additional discussion on the accounting for these reinsurance arrangements.

Intangible and Intellectual Property

We capture and protect the innovation in our financial services products by applying for federal business method patents and implementing trade secret controls, as appropriate. We also use numerous federal, state, common law and foreign servicemarks, including in particular "Prudential", "Prudential Financial", the "Prudential logo" and our "Rock" symbol. We believe that the value associated with many of our patents and trade secrets, and the goodwill associated with many of our servicemarks are significant competitive assets.

On April 20, 2004, we entered into an agreement with Prudential plc of the United Kingdom, with whom we have no affiliation, concerning the parties' respective rights worldwide to use the names "Prudential" and "Pru." The agreement restricts use of the "Prudential" and "Pru" name and mark in a number of countries outside the Americas, including Europe and most parts of Asia. Where these limitations apply, we combine our "Rock" symbol with alternative word marks. We believe that these limitations do not materially affect our ability to operate or expand internationally.

Regulation

Overview

Our businesses are subject to comprehensive regulation and supervision. The purpose of these regulations is primarily to protect our customers and the overall financial system and not necessarily our shareholders or debt holders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations or profitability. Financial market dislocations have produced, and are expected to continue to produce, extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the U.S. and internationally, including the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") discussed below.

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Dodd-Frank Wall Street Reform and Consumer Protection Act

Dodd-Frank subjects us to substantial federal regulation, primarily as a non-bank financial company (a "Designated Financial Company") designated for supervision by the Board of Governors of the Federal Reserve System ("FRB") as discussed below. We cannot predict the timing or requirements of the regulations not yet adopted under Dodd-Frank or how such regulations will impact our business, credit or financial strength ratings, results of operations, cash flows, financial condition or competitive position. Furthermore we cannot predict whether such regulations will make it advisable or require us to hold or raise additional capital or liquid assets, potentially affecting capital deployment activities, including buying back shares or paying dividends.

Regulation as a Designated Financial Company

Dodd-Frank established a Financial Stability Oversight Council ("Council") which is authorized to subject non-bank financial companies such as Prudential Financial to stricter prudential standards and to supervision by the FRB if the Council determines that either material financial distress at the Company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the Company's activities could pose a threat to domestic financial stability. Prudential Financial has been a Designated Financial Company since September 2013 under the first criterion.

As a Designated Financial Company, Prudential Financial is now subject to supervision and examination by the FRB and to stricter prudential standards. These standards include or will include requirements and limitations (many of which are the subject of ongoing rule-making as described below) relating to capital, leverage, liquidity, stress-testing, overall risk management, resolution and recovery plans, credit exposure reporting, early remediation, management interlocks and credit concentration. They may also include requirements regarding enhanced public disclosure, short-term debt limits, and other related subjects as may be deemed appropriate by the FRB acting on its own or pursuant to a recommendation of the Council. Thus far the FRB has focused its general supervisory authority over us in several areas, including oversight of a capital planning and capital analysis and review process, model governance and validation, operational risk management, resolution planning and information and technology security.

Enhanced Prudential Standards

Dodd-Frank requires the FRB to establish for Designated Financial Companies and certain large bank holding companies stricter requirements and limitations relating to capital, leverage and liquidity. The FRB has not adopted rules applicable to insurance holding company Designated Financial Companies, but in February 2014 it adopted enhanced prudential standards applicable to large bank holding companies and in July 2015 it adopted rules applicable to the one non-insurance Designated Financial Company.

Dodd-Frank authorizes the FRB to tailor its application of enhanced prudential standards to different companies on an individual basis or by category, and the FRB has indicated that it intends to assess the business model, capital structure and risk profile of Designated Financial Companies to determine how enhanced prudential standards should apply to them, and, if appropriate, to tailor the application of these standards for Designated Financial Companies by order or regulation. In addition, in 2014 an amendment to Dodd-Frank clarified that, in establishing minimum leverage and capital requirements and minimum risk-based capital requirements on a consolidated basis for Designated Financial Companies, the FRB is permitted to exclude certain insurance activities from such requirements, although we cannot predict whether or how the FRB will use this authority.

Stress Tests

As a Designated Financial Company, we will be subject to stress tests to be promulgated by the FRB to determine whether, on a consolidated basis, we have the capital necessary to absorb losses as a result of adverse economic conditions. Dodd-Frank requires us to submit to annual stress tests conducted by the FRB and to conduct internal annual and semi-annual stress tests to be provided to the FRB. Under FRB rules, Designated Financial Companies must comply with these requirements the calendar year after the year in which a company first becomes subject to the FRB's minimum regulatory capital requirements discussed above, although the FRB has the discretion to accelerate or extend the effective date. The FRB has indicated that it may tailor the application of the stress test requirements to Designated Financial Companies on an individual basis or by category. Summary results of such stress tests would be required to be publicly disclosed.

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Early Remediation

The FRB is required under Dodd-Frank to prescribe regulations for the establishment of an “early remediation” regime for the financial distress of Designated Financial Companies, whereby failure to meet defined measures of financial condition (including regulatory capital, liquidity measures, and other forward-looking indicators) would result in remedial action by the FRB that increases in stringency as the financial condition of the Designated Financial Company declines. Depending on the degree of financial distress, such remedial action could result in capital-raising requirements, limits on transactions with affiliates, management changes and asset sales.

Resolution and Recovery Planning

We are required as a Designated Financial Company to submit to the FRB and Federal Deposit Insurance Corporation (“FDIC”), and periodically update in the event of material events, an annual plan for rapid and orderly resolution in the event of severe financial distress. We submitted our first resolution plan in June 2014, and were advised by the FRB and FDIC in September 2014 that the plan was “not incomplete,” the standard for evaluation of an initial plan. In July 2015, the FRB and the FDIC provided feedback to the Company, as well as to the other two Designated Financial Companies which filed initial plans in 2014, on our respective resolution plans. The FRB and FDIC also provided guidance on common areas that should be addressed in preparing the subsequent resolution plan. We submitted our second resolution plan in December 2015, which is subject to review for credibility, in addition to completeness. In 2016 we are also required to submit to the FRB a recovery plan that describes the steps that the Company could take to reduce risk and conserve or restore liquidity and capital in the event of severe financial stress scenarios.

If the FRB and the FDIC were to jointly determine that our 2015 resolution plan, or any future resolution plan, is not credible or would not facilitate an orderly resolution of the Company under applicable law, and the Company is unable to remedy the identified deficiencies in a timely manner, the regulators may jointly impose more stringent capital, leverage or liquidity requirements on the Company or restrictions on growth, activities or operations. Any requirements or restrictions imposed by the FRB and FDIC would cease to apply on the date that the FRB and FDIC jointly determine that the Company has submitted a revised resolution plan that adequately remedies the deficiencies.

The FRB and the FDIC, in consultation with the Council, may also jointly order the Company to divest assets or operations identified by the FRB and FDIC in circumstances where:

- the FRB and the FDIC jointly decide that the Company or a subsidiary of the Company shall be subject to the requirements or restrictions described above,
- the Company has failed to submit a resolution plan that adequately addresses the deficiencies identified by the FRB and FDIC for the two year period following the imposition of such requirements or restrictions, and
- the FRB and FDIC jointly determine that the divestiture of such assets or operations is necessary to facilitate an orderly resolution of the Company in the event that the Company was to fail.

In addition, in order to develop a resolution plan that the FRB and FDIC determine is credible or would facilitate the orderly resolution of the Company under applicable law, it may be necessary for the Company to take actions to restructure intercompany and external activities or other actions, which could result in increased funding or operational costs.

Other Dodd-Frank Regulation

- Dodd-Frank requires the FRB to promulgate regulations that would prohibit Designated Financial Companies from having a credit exposure to any unaffiliated company in excess of 25% of the Designated Financial Company’s capital stock and surplus.

- As a Designated Financial Company, we must seek pre-approval from the FRB for the acquisition of specified interests in certain companies engaged in financial activities.
- The Council may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices we and other insurers or other financial services companies engage in.
- As a Designated Financial Company, we could be subject to additional capital requirements for, and other restrictions on, proprietary trading and sponsorship of, and investment in, hedge, private equity and other covered funds.

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Derivatives Regulation

Dodd-Frank created a new framework for regulation of the over-the-counter ("OTC") derivatives markets which has impacted various activities of Prudential Global Funding LLC ("PGF"), Prudential Financial and our insurance subsidiaries, which use derivatives for various purposes (including hedging interest rate, foreign currency and equity market exposures). This new framework sets out requirements regarding the clearing and reporting of derivatives transactions, as well as collateral posting requirements for uncleared swaps. Swaps entered into between PGF, Prudential Financial and our insurance subsidiaries are generally exempt from most of these requirements. In late 2015, final rules regarding the posting of collateral in connection with uncleared swaps were adopted, which we do not believe will have a significant impact on our current variation margin posting practices, but will require us, in the future, to post initial margin on uncleared swaps with external counterparties.

Regulation of the derivatives markets continues to evolve, and we cannot predict the full effect of regulations yet to be adopted or fully implemented both in the U.S. and abroad. In particular, we continue to monitor increased capital requirements for derivatives transactions that may be imposed on banks that are our counterparties. These regulations may impact our hedging costs, our hedging strategy or implementation thereof or cause us to increase or change the composition of the risks we do not hedge. In addition, under Dodd-Frank the SEC and Commodity Futures Trading Commission are required to determine whether and how "stable value contracts" should be treated as swaps under the applicable regulations and whether various other products offered by our insurance subsidiaries should be treated as swaps. If regulated as swaps, we cannot predict how the rules would be applied to such products or the effect on their profitability or attractiveness to our clients.

Federal Insurance Office

Dodd-Frank established a Federal Insurance Office ("FIO") within the Department of the Treasury headed by a director appointed by the Secretary of the Treasury. While the FIO does not have general supervisory or regulatory authority over the business of insurance, the FIO director performs various functions with respect to insurance, including serving as a non-voting member of the Council and coordinating with the FRB in the application of any stress tests required to be conducted with respect to an insurer.

Securities Laws

Dodd-Frank included various securities law reforms relevant to our business practices. In January 2011, the SEC staff issued a study that recommended that the SEC adopt a uniform federal fiduciary standard of conduct for registered broker-dealers and investment advisers that provide retail investors personalized investment advice about securities which the SEC continues to consider.

International and Global Regulatory Initiatives

In addition to the adoption of Dodd-Frank in the United States, lawmakers around the world are actively exploring steps to avoid future financial crises. In many respects, this work is being led by the Financial Stability Board ("FSB"), consisting of representatives of national financial authorities of the G20 nations. The G20, the FSB and related bodies have developed proposals to address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including executive compensation, and a host of related issues.

We have been identified by the FSB as a global systemically important insurer ("G-SII") since July, 2013. U.S. financial regulators are thereby expected to enhance their regulation of Prudential Financial to achieve a number of regulatory objectives, including enhanced group-wide supervision, enhanced capital standards, enhanced liquidity planning and management, and development of a risk reduction plan and recovery and resolution plans.

The International Association of Insurance Supervisors ("IAIS"), acting at the direction of the FSB, has released two group-wide capital standards applicable to G-SIIs. The basic capital requirement ("BCR"), which was approved by the FSB and G20 in November 2014, is a globally consistent and comparable baseline capital metric. The higher loss absorbency ("HLA") standard, which was approved by the FSB and G20 in November 2015, establishes a capital buffer to be held in addition to the BCR. As a standard setting body, the IAIS does not have direct authority to require G-SIIs to comply with the BCR and HLA standards; however, if they are adopted by group supervisory authorities in the U.S., Prudential Financial could become subject to these standards. Voluntary confidential reporting of BCR and HLA results to supervisors through IAIS field testing will begin in 2016 and will serve as a component of the IAIS process to refine the standards. Prudential Financial's capital level is expected to be above the initial calibration for both standards. The IAIS anticipates its process to develop global group-wide capital standards will lead to changes to the HLA design and calibration prior to the proposed implementation in 2019. We will continue to evaluate the potential impact the standards and any revisions could have on the Company.

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The IAIS is also developing the Common Framework ("ComFrame") for the supervision of Internationally Active Insurance Groups. Through ComFrame, the IAIS seeks to promote effective and globally consistent supervision of the insurance industry and contribute to global financial stability through uniform standards for insurer corporate governance, enterprise risk management and other control functions, group-wide supervision and group capital adequacy. ComFrame is targeted at firms that meet the IAIS' Internationally Active Insurance Group criteria, such as Prudential, and is scheduled to be adopted by the IAIS in 2019. At this time, we cannot predict what additional capital requirements, compliance costs or other burdens ComFrame would impose on us, if adopted by U.S. group supervisory authorities.

The lawmakers and regulatory authorities in a number of jurisdictions in which we do business have already begun enacting or considering legislative and regulatory changes consistent with G20 and FSB recommendations, including new regulations and proposals governing consolidated regulation of insurance holding companies set forth by the Financial Services Agency ("FSA") in Japan, as described below under "Regulation of our International Businesses." In addition, the prudential regulation of insurance and reinsurance companies across the European Economic Area ("EEA") is due for significant change under the Solvency II Directive which came into force in January 2016 and applies to our insurance subsidiaries based in the EEA. This new regime effects a full revision of the insurance industry's solvency framework and prudential regime (in particular minimum capital and solvency requirements, governance requirements, risk management and public reporting standards) and imposes, among other things, group level supervision mechanisms.

The foregoing requirements and developments could impact the manner in which we deploy our capital, structure and manage our businesses, and otherwise operate both within the U.S. and abroad. The possibility of inconsistent and conflicting regulation of the Prudential Financial "group" of companies also exists as law makers and regulators in multiple jurisdictions simultaneously pursue these initiatives.

Other U.S. Federal Regulation

U.S. Tax Legislation

The American Taxypayer's Relief Act (the "Act") was signed into law in January 2013. The Act permanently extended the reduced Bush era individual tax rates for certain taxpayers and permanently increased those rates for higher income taxpayers. Higher tax rates increase the benefits of tax deferral on the build-up of value of annuities and life insurance. The Act also made permanent the current $5 million (indexed for inflation) per person estate tax exemption and increased the top estate tax rate from 35% to 40%.

In December 2015, Congress enacted legislation renewing the Active Financing Exception retroactive for tax years beginning on or after January 1, 2015 and making the provision a permanent part of the U.S. tax code. This provision allows for deferral of U.S. tax on certain earnings of our foreign insurance companies until distributed to the U.S. This provision is expected to lower the Company's future U.S. tax liability on undistributed foreign earnings and increase after tax results.

There continues to be uncertainty regarding U.S. taxes, both for individuals and corporations. Discussions in Washington continue concerning the need to reform the tax code, primarily by lowering tax rates and broadening the base, including by reducing or eliminating certain tax expenditures. Broadening the tax base or reducing or eliminating certain expenditures could make our products less attractive to customers. It is unclear whether or when Congress may take up overall tax reform and what would be the impact of reform on the Company and its products. However, even in the absence of overall tax reform, given the large federal deficit, Congress could raise revenue by enacting legislation to increase the taxes paid by individuals and corporations. This can be accomplished by either

raising rates or otherwise changing the tax rules that affect the Company and its products.

Current U.S. federal income tax laws generally permit certain holders to defer taxation on the build-up of value of annuities and life insurance products until payments are actually made to the policyholder or other beneficiary and to exclude from taxation the death benefit paid under a life insurance contract. Congress from time to time considers legislation that could make our products less attractive to consumers, including legislation that would reduce or eliminate the benefit of this deferral on some annuities and insurance products.

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Additionally, legislative or regulatory changes could also impact the amount of taxes that we pay, thereby affecting our consolidated net income. For example, the U.S. Treasury Department and the Internal Revenue Service intend to address through guidance the methodology to be followed in determining the dividends received deduction ("DRD") related to variable life insurance and annuity contracts. The DRD reduces the amount of dividend income subject to U.S. tax and is a major reason for the difference between our actual tax expense and expected tax amount determined using the federal statutory tax rate of 35%. For the last several years, the revenue proposals included in the Obama Administration's budgets (the "Administration's Revenue Proposals") included a proposal that would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through guidance or legislation, could increase actual tax expense and reduce the Company's consolidated net income.

Furthermore, the Administration's Fiscal Year 2017 Revenue Proposals also include items that would change the way U.S. multinationals are taxed, as well as a liability-based fee on financial services companies, including insurance companies, with consolidated assets in excess of $50 billion. If these types of provisions are enacted into law, they could increase the amount of taxes the Company pays.

For additional discussion of possible tax legislative and regulatory risks that could affect our business, see "Risk Factors."

ERISA

The Employee Retirement Income Security Act ("ERISA") is a comprehensive federal statute that applies to U.S. employee benefit plans sponsored by private employers and labor unions. Plans subject to ERISA include pension and profit sharing plans and welfare plans, including health, life and disability plans. ERISA provisions include reporting and disclosure rules, standards of conduct that apply to plan fiduciaries and prohibitions on transactions known as "prohibited transactions," such as conflict-of-interest transactions and certain transactions between a benefit plan and a party in interest. ERISA also provides for civil and criminal penalties and enforcement. Our insurance, asset management and retirement businesses provide services to employee benefit plans subject to ERISA, including services where we may act as an ERISA fiduciary. In addition to ERISA regulation of businesses providing products and services to ERISA plans, we become subject to ERISA's prohibited transaction rules for transactions with those plans, which may affect our ability to enter transactions, or the terms on which transactions may be entered, with those plans, even in businesses unrelated to those giving rise to party in interest status.

DOL Fiduciary Rule

In April 2015, the U.S. Department of Labor ("DOL") released a proposed regulation accompanied by new class exemptions and proposed amendments to long-standing exemptions from the prohibited transaction provisions under ERISA. The initial comment period for the proposed rules ended on July 21, 2015. After hearings in August 2015, the DOL re-opened the comment period until September 24, 2015. It is expected that the DOL will promulgate final rules in 2016. If enacted, the rules will redefine who would be considered a "fiduciary" for purposes of transactions with qualified plans, plan participants and Individual Retirement Accounts. We cannot predict the exact nature and scope of any new final rules or their impact on our business; however, the new rules may effectively impose limits on interactions with existing and prospective customers in our Individual Annuities, Retirement, Asset Management, Individual Life and Group Insurance businesses, and increase compliance costs. For a discussion of the potential impacts of the proposed rule on our businesses, see "Risk Factors—Regulatory and Legal Risks—Changes in the legislation and regulation of retirement products and services, including proposed regulations released by the DOL in 2015, could adversely affect our business, results of operations, cash flows and financial condition."

USA Patriot Act

The USA Patriot Act of 2001 contains anti-money laundering and financial transparency laws applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the U.S. contain provisions that may be different, conflicting or more rigorous. The increased obligations of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions require the implementation and maintenance of internal practices, procedures and controls.

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Insurance Holding Company Regulation

We are subject to the insurance holding company laws in the states where our insurance subsidiaries are domiciled, which currently include New Jersey, Arizona, Connecticut and Indiana, or are treated as commercially domiciled, such as New York. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company's state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions affecting the insurers in the holding company system must be fair and reasonable and, if material, require prior notice and approval or non-disapproval by the state's insurance department.

Most states, including the states in which our U.S. insurance companies are domiciled, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer or an insurer's holding company. Laws such as these that apply to us prevent any person from acquiring control of Prudential Financial or of our insurance subsidiaries unless that person has filed a statement with specified information with the insurance regulators and has obtained their prior approval. Under most states' statutes, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of the voting securities of Prudential Financial without the prior approval of the insurance regulators of the states in which our U.S. insurance companies are domiciled will be in violation of these states' laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator or prohibiting the voting of those securities and to other actions determined by the relevant insurance regulator. In addition, many state insurance laws require prior notification to state insurance departments of a change in control of a non-domiciliary insurance company doing business in that state.

Several of our domestic and foreign regulators, including the FRB, participate in an annual supervisory college. The purpose of the supervisory college is to promote ongoing supervisory coordination, facilitate the sharing of information among regulators and to enhance each regulator's understanding of the Company's risk profile. The 2015 college was held in October.

Group Wide Supervision

In 2014, New Jersey adopted legislation that authorizes group-wide supervision of internationally active insurance groups, and in 2015 the New Jersey Department of Banking and Insurance ("NJDOBI") notified Prudential Financial that the law authorizes NJDOBI to act as the group-wide supervisor of Prudential Financial. The law, among other provisions, authorizes NJDOBI to examine Prudential Financial and its subsidiaries, in addition to its New Jersey domiciled insurance subsidiaries, for the purpose of ascertaining the financial condition of the insurance companies and compliance with New Jersey insurance laws. As group-wide supervisor, the NJDOBI has begun additional reviews of the Company's operations. We cannot predict what additional requirements or costs may result from NJDOBI's assertion of group-wide supervisor status with respect to Prudential Financial.

Currently, there are several proposals to amend state insurance holding company laws to increase the scope of regulation of insurance holding companies (such as Prudential Financial). The National Association of Insurance Commissioners ("NAIC") has promulgated model laws for adoption in the United States that would provide for "group-wide" supervision of certain insurance holding companies in addition to the current regulation of insurance subsidiaries. While the timing of their adoption and content will vary by jurisdiction, we have identified the following areas of focus in these model laws: (1) uniform standards for insurer corporate governance; (2) group-wide supervision of insurance holding companies; (3) adjustments to risk-based capital calculations to account for group-wide risks; and (4) additional regulatory and disclosure requirements for insurance holding companies. At this time, we cannot predict with any degree of certainty what additional capital requirements, compliance costs or other

burdens these requirements will impose on Prudential Financial.

Insurance Operations

State insurance laws regulate all aspects of our U.S. insurance businesses, and state insurance departments in the fifty states, the District of Columbia and various U.S. territories and possessions monitor our insurance operations. Prudential Insurance is domiciled in New Jersey and its principal insurance regulatory authority is the NJDOBI. Our other U.S. insurance companies are principally regulated by the insurance departments of the states in which they are domiciled. Generally, our insurance products must be approved by the insurance regulators in the state in which they are sold. Our insurance products are substantially affected by federal and state tax laws.

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State Insurance Regulation

State insurance authorities have broad administrative powers with respect to all aspects of the insurance business including: licensing to transact business; licensing agents; admittance of assets to statutory surplus; regulating premium rates for certain insurance products; approving policy forms; regulating unfair trade and claims practices; establishing reserve requirements and solvency standards; fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values; regulating the type, amounts and valuations of investments permitted; regulating reinsurance transactions, including the role of captive reinsurers; and other matters.

State insurance laws and regulations require our U.S. insurance companies to file financial statements with state insurance departments everywhere they do business in accordance with accounting practices and procedures prescribed or permitted by these departments. The operations of our U.S. insurance companies and accounts are subject to examination by those departments at any time.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. During 2013, the New Jersey insurance regulator, along with the insurance regulators of Arizona, Connecticut, Indiana and Iowa, completed a coordinated risk-focused financial examination for the five year period ended December 31, 2011, for all of our U.S. domestic insurance companies as part of the normal five year examination and found no material deficiencies.

Financial Regulation

Dividend Payment Limitations. The New Jersey insurance law and the insurance laws of the other states in which our insurance companies are domiciled regulate the amount of dividends that may be paid by Prudential Insurance and our other U.S. insurance companies. See Note 15 to the Consolidated Financial Statements for additional information.

Risk-Based Capital. In order to enhance the regulation of insurers' solvency, the NAIC adopted a model law to implement risk-based capital requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC's model law or a substantially similar law. The risk-based capital ("RBC") calculation, which regulators use to assess the sufficiency of an insurer's statutory capital, measures the risk characteristics of a company's assets, liabilities and certain off-balance sheet items. In general, RBC is calculated by applying factors to various asset, premium, claim, expense and reserve items. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy.

Insurance Reserves and Regulatory Capital. State insurance laws require us to analyze the adequacy of our reserves annually. The respective appointed actuaries for each of our life insurance companies must each submit an opinion that our reserves, when considered in light of the assets we hold with respect to those reserves, make adequate provision for our contractual obligations and related expenses.

As a result of a February 2014 agreement with the New York State Department of Financial Services ("NY DFS") regarding our reserving methodologies for certain variable annuity and life insurance products, certain of our New York licensed insurance subsidiaries hold additional statutory reserves on a New York basis, which reduces their New York statutory surplus. None of our U.S. operating insurance companies are domiciled in New York, and these changes do not impact statutory reserves reported in our insurance subsidiaries' states of domicile, or any states other than New York, and therefore do not impact RBC ratios; however, the agreed reserve methodologies may require us

to hold additional New York statutory reserves in the future. If we were required to establish material additional reserves on a New York statutory accounting basis or post material amounts of additional collateral with respect to annuity or insurance products, our ability to deploy capital held within our U.S. domestic insurance subsidiaries for other purposes could be affected. In the fourth quarter of 2015, Prudential Annuities Life Assurance Corporation ("PALAC") surrendered its New York license and reinsured its New York business to an affiliate. The license surrender relieves PALAC of the requirement to hold additional New York statutory reserves mandated by the agreement.

The NAIC has developed a principles-based reserving approach for life insurance products, which is designed to better address reserving for products for which the current formulaic basis for reserves may not accurately reflect the risks or costs of the liability or obligations to the insurer. The principles-based approach will become effective after the NAIC's Standard Valuation Law is enacted by a minimum number of states representing a minimum premium volume, and may become effective as soon as January 1, 2017, with a three year phase-in period and would apply only to new business. The timing and the effect of these changes are still uncertain, and the Company is reviewing the application of the law to its reserves.

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Captive Reinsurance Companies. In December 2014, the NAIC adopted a new actuarial guideline, known as “AG 48,” that implements many of the recommendations set forth in the June 2014 report by Rector & Associates, Inc. (“Rector Report”) concerning certain transactions involving captive reinsurance companies. Specifically, AG 48 prescribes an actuarial method to determine the portion of the assets held to support reserves for certain term and universal life policies that must be “primary securities”, which are defined as cash and securities rated by the Securities Valuation Office of the NAIC (subject to some limited exceptions) or, in limited cases, certain other assets. AG 48 provides that reserves in excess of those calculated with the prescribed actuarial method may be supported or financed with a broader range of assets, referred to as “other securities”. The requirements in AG 48 became effective on January 1, 2015 and apply for reporting periods ending December 31, 2015 in respect of certain term and universal life insurance policies written from and after January 1, 2015, or written prior to January 1, 2015, but not included in a captive reinsurer financing arrangement as of December 31, 2014. The NAIC and state regulators also continue to consider additional changes based on the Rector Report.

We have used captive reinsurance subsidiaries to finance a portion of the statutory reserves for term and universal life policies that we consider to be non-economic. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital—Financing Activities—Term and Universal Life Reserve Financing” for a discussion of the impact of AG 48 on our life product reserves and reserve financing.

In addition to the changes recommended by the Rector Report, the NAIC continues to consider other changes that would regulate more strictly captive reinsurance companies that assume business directly written in more than one state and apply accreditation standards to those captives that historically were applicable only to traditional insurers.

The NAIC and state and federal regulators also continue to study the use of captive reinsurance companies for variable annuities. In November 2015 the NAIC adopted the Variable Annuities Framework for Change, which outlines the NAIC’s commitment to change in concept the statutory framework to address concerns that have led to the development and utilization of captive reinsurance transactions for variable annuity business in order to create more consistency across regulators and remove the impetus for insurers to cede risk to captives. The framework contemplates extensive changes to the guidance and rules governing variable annuities, including with regard to reserving, capital, accounting, derivative use limitations and disclosure. We have agreed to participate in a quantitative impact study assessing the efficacy and potential impact of the recommended reforms. Given the uncertainty of the ultimate outcome of these initiatives, at this time we are unable to estimate their expected effects on our future capital and financial position and results of operations. In December 2015, we announced our intention to recapture our variable annuity living benefit riders from our captive reinsurer in 2016 and to manage the risks of these riders in our statutory entities. We have obtained approvals from insurance regulators for key aspects of our recapture plan. While we are initiating the recapture in advance of definitive guidance from the NAIC's Variable Annuities Framework for Change, we expect our plan to be reasonably aligned with the key concept changes planned under the framework. For information on our reinsurance of variable annuity risks to our captive, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital—Captive Reinsurance Companies.”

Own Risk and Solvency Assessment. New Jersey has enacted the NAIC's and Own Risk and Solvency Assessment (“ORSA”) model act which requires larger insurers to assess the adequacy of its and its group’s risk management and current and future solvency position. We began filing annual ORSA reports with NJDOBI in 2015.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales practices and complaint handling. State regulatory authorities generally enforce these provisions through periodic

market conduct examinations.

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which insurers doing business in the state are members and may be assessed by state insurance guaranty associations for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer's proportionate share of the business written by all member insurers in the state. For the years ended December 31, 2015, 2014 and 2013, we paid approximately $0.6 million, $28.8 million and $66.1 million, respectively, in assessments pursuant to state insurance guaranty association laws. Many states offer a reimbursement of such assessments in the form of credits against future years' premium taxes. The 2013 assessments reflected the Executive Life of New York ("ELNY") and the Executive Life Insurance Company insolvencies. In addition, in 2011, we agreed to make a voluntary contribution of $20 million to an insurance industry solvency fund, related to ELNY, which was subsequently paid in 2013. The 2014 assessments also included payments related to the ELNY insolvency, which substantially concluded our assessments related to this matter. While we cannot predict the amount and timing of future assessments on our U.S. insurance companies under these laws, we have established estimated reserves for future assessments relating to insurance companies that are currently subject to insolvency proceedings.

Federal and State Securities Regulation Affecting Insurance Operations

Our variable life insurance, variable annuity and mutual fund products generally are "securities" within the meaning of federal securities laws and may be required to be registered under the federal securities laws and subject to regulation by the SEC and the Financial Industry Regulatory Authority ("FINRA"). Certain of our insurance subsidiaries are subject to SEC public reporting and disclosure requirements based on offerings of these products. Federal and some state securities regulation similar to that discussed below under "—Investment Products and Asset Management Operations" and "—Securities and Commodities Regulation" affect investment advice, sales and related activities with respect to these products.

Our mutual funds, and in certain states our variable life insurance and variable annuity products, are "securities" within the meaning of state securities laws. As securities, these products are subject to filing and certain other requirements. Also, sales activities with respect to these products generally are subject to state securities regulation. Such regulation may affect investment advice, sales and related activities for these products.

Investment and Retirement Products and Asset Management Operations

Our investment products and services are subject to federal and state securities, fiduciary, including ERISA, and other laws and regulations. The SEC, FINRA, CFTC, state securities commissions, state banking and insurance departments and the United States Department of Labor are the principal U.S. regulators that regulate our asset management operations. In some cases our domestic U.S. investment operations are also subject to non-U.S. securities laws and regulations.

Some of the separate account, mutual fund and other pooled investment products offered by our businesses, in addition to being registered under the Securities Act, are registered as investment companies under the Investment Company Act of 1940, as amended, and the shares of certain of these entities are qualified for sale in some states and the District of Columbia. Separate account investment products are also subject to state insurance regulation as described above. We also have several subsidiaries that are registered as broker-dealers under the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, and are subject to federal and state regulation. In addition, we have subsidiaries that are investment advisers registered under the Investment Advisers Act of 1940, as amended. Our third-party advisors and licensed sales professionals within Prudential Advisors and other employees, insofar as they sell products that are securities, are subject to the Exchange Act and to examination requirements and regulation by the SEC, FINRA and state securities commissioners. Regulation and examination requirements also extend to various

Prudential entities that employ or control those individuals. The federal securities laws could also require re-approval by customers of our investment advisory contracts to manage mutual funds, including mutual funds included in annuity products, upon a change in control.

Congress from time to time considers pension reform legislation that could decrease or increase the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators, or have an unfavorable or favorable effect on our ability to earn revenues from these products and services. Over time, these changes could hinder our sales of defined benefit pension products and services and cause sponsors to discontinue existing plans for which we provide asset management, administrative, or other services, but could increase the attractiveness of certain products we offer in connection with pension plans.

Securities and Commodities Regulation

We have subsidiaries that are broker-dealers, investment advisers, commodity pool operators or commodity trading advisers. The SEC, the CFTC, state securities authorities, FINRA, the National Futures Association ("NFA"), the Municipal Securities Rulemaking Board, and similar authorities are the principal regulators of these subsidiaries.

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Our broker-dealer and commodities affiliates are members of, and are subject to regulation by, "self-regulatory organizations," including FINRA and the NFA. Self-regulatory organizations conduct examinations of, and have adopted rules governing, their members. In addition, state securities and certain other regulators have regulatory and oversight authority over our registered broker-dealers. Broker-dealers and their sales forces in the U.S. and in certain other jurisdictions are subject to regulations that cover many aspects of the securities business, including sales methods and trading practices. The regulations cover the suitability of investments for individual customers, use and safekeeping of customers' funds and securities, capital adequacy, recordkeeping, financial reporting and the conduct of directors, officers and employees. The SEC, CFTC and other governmental agencies and self-regulatory organizations, as well as state securities commissions in the U.S. and non-U.S. regulatory agencies, have the power to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or suspension, termination or limitation of the activities of a broker-dealer, an investment adviser or commodities firm or its employees. Our U.S. registered broker-dealer subsidiaries are subject to federal net capital requirements that may limit the ability of these subsidiaries to pay dividends to Prudential Financial.

Privacy Regulation and Cybersecurity

We are subject to federal and state laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify their customers and other individuals of their policies and practices relating to the collection and disclosure of health-related and customer information. Federal or state laws or regulations also:

- provide additional protections regarding the use and disclosure of certain information such as social security numbers;
- require notice to affected individuals, regulators and others if there is a breach of the security of certain personal information;
- require financial institutions and creditors to implement effective programs to detect, prevent, and mitigate identity theft;
- regulate the process by which financial institutions make telemarketing calls and send e-mail or fax messages to consumers and customers; and
- prescribe the permissible uses of certain personal information, including customer information and consumer report information.

Federal and state legislative and regulatory bodies may consider additional or more detailed or restrictive laws and regulations regarding these subjects and the privacy and security of personal information.

We are also subject to privacy laws, regulations, and directives that require our business units in countries outside the U.S. to protect the security and confidentiality of employee and customer personal information. In addition, we must comply with international privacy laws, regulations, and directives concerning the cross border transfer or use of employee and customer personal information.

Federal and state financial regulators continue to focus on cybersecurity and have communicated heightened expectations and have increased emphasis in this area in their examinations of regulated entities. The Company reviews and revises its privacy and information security policies, procedures and standards accordingly. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Risk Exposure and Monitoring—Operational Risk."

Environmental Considerations

Federal, state and local environmental laws and regulations apply to our ownership and operation of real property. Inherent in owning and operating real property are the risks of hidden environmental liabilities and the costs of any required clean-up. Although unexpected environmental liabilities can always arise, we seek to minimize this risk by undertaking environmental assessments, among other measures prior to taking title to real estate.

Unclaimed Property Laws

We are subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and we are subject to audit and examination for compliance with these requirements. For additional discussion of these matters, see Note 23 to the Consolidated Financial Statements.

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Regulation of our International Businesses

Our international businesses are subject to comprehensive regulation and supervision. As in the U.S., the purpose of these regulations is primarily to protect our customers and not our shareholders or debt holders. These regulations may apply heightened scrutiny to non-domestic companies, which can reduce our flexibility as to intercompany transactions, investments and other aspects of business operations and adversely affect our liquidity and profitability. Many of the laws and regulations to which our international businesses are subject are regularly re-examined, in some instances resulting in comprehensive restatements of applicable laws, regulations and reorganization of supervising authorities. Existing or future laws or regulations may become more restrictive or otherwise adversely affect our operations as regulators seek to protect their financial systems from perceived systemic risk. In some instances, jurisdictions may also impose different, conflicting or more rigorous laws and requirements, including regulations governing privacy, consumer protection, employee protection, corporate governance and capital adequacy. Changes such as these can increase compliance costs and potential regulatory exposure.

In addition, our international operations face political, legal, operational and other risks that we do not face in the U.S., including the risk of discriminatory regulation, labor issues in connection with workers' associations and trade unions, nationalization or expropriation of assets, price controls and currency exchange controls or other restrictions that limit our ability to transfer funds from these operations out of the countries in which they operate or to convert local currencies we hold into U.S. dollars or other currencies. Some jurisdictions in which we operate joint ventures restrict our maximum percentage of ownership, which exposes us to joint venture partner risks and limits our array of potential remedies.

Our international insurance operations are principally supervised by regulatory authorities in the jurisdictions in which they operate, including the Japanese Ministry of Finance and the FSA, the financial services regulator in Japan. We operate insurance companies in Japan, Korea, Taiwan, Mexico, Argentina, Brazil, Italy and Poland and have insurance operations in India, China and Malaysia through joint ventures. The insurance regulatory bodies for these businesses typically oversee such issues as company licensing, the licensing of insurance sales staff, insurance product approvals, sales practices, claims payment practices, permissible investments, solvency and capital adequacy, and insurance reserves, among other items. In some jurisdictions, for certain products, regulators will also mandate premium rates (or components of pricing) or minimum guaranteed interest rates. Periodic examinations of insurance company books and records, financial reporting requirements, market conduct examinations and policy filing requirements are among the techniques used by these regulators to supervise our non-U.S. insurance businesses.

In order to monitor insurers' solvency, regulatory authorities in the jurisdictions in which we operate outside the U.S. generally establish some form of minimum solvency margin requirements for insurance companies, similar in concept to the RBC ratios that are employed by U.S. insurance regulators. These solvency margins are used by regulators to assess the sufficiency of an insurer's capital and claims-paying ability and include the impact of transactions with affiliated entities. The solvency margin ratios ("SMR") in certain jurisdictions are required to be disclosed to the public. Insurers that have less solvency margin than the regulators require are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy.

In 2012, the FSA implemented revisions to the solvency margin requirements and developed a consolidated basis capital standard. These new standards require insurers to adopt changes in the manner in which an insurance company's core capital is calculated and are meant to respond to changes in financial markets, improve risk management practices of insurers and consider risks associated with the insurer's subsidiaries. We anticipate further changes in solvency regulation from jurisdiction to jurisdiction based on regulatory developments in the U.S., the EEA, and recommendations by the IAIS, as well as regulatory requirements for those companies deemed to be G-SIIs, as described above under "International and Global Regulatory Initiatives."

The insurance regulatory bodies in some of the countries where our international insurance businesses are located regulate the amount of dividends that they can pay to shareholders. See Note 15 to the Consolidated Financial Statements for additional information regarding the ability of our international subsidiaries to pay dividends to Prudential Financial.

Our non-insurance international operations are also supervised primarily by regulatory authorities in the countries in which they operate. We operate investment-related businesses in, among other jurisdictions, Japan, Taiwan, the United Kingdom, Hong Kong, Mexico, India, Germany and Singapore, and participate in investment-related joint ventures in Brazil, Italy and China. These businesses may provide investment-related products such as investment management products and services, mutual funds and separately managed accounts. The regulatory authorities for these businesses typically oversee such issues as company licensing, the licensing of investment product sales staff, sales practices, solvency and capital adequacy, mutual fund product approvals and related disclosures, and securities, commodities and related laws, among other items. In some cases, our international investment operations are also subject to U.S. securities laws and regulations.

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Our international businesses may also be subject to U.S. laws governing businesses controlled by U.S. companies such as the Foreign Corrupt Practices Act, various anti-money laundering laws and regulations, and certain regulations issued by the U.S. Office of Foreign Asset Controls. In addition, under current U.S. law and regulations we may be prohibited from dealing with certain individuals or entities in certain circumstances and we may be required to monitor customer activities, which may affect our ability to attract and retain customers. Furthermore, certain of our businesses, particularly those with operations in the United Kingdom ("U.K."), are also subject to the U.K.'s Anti-Bribery Law, which governs interactions with both governmental and private commercial entities.

Certain of our international insurance operations, including those in Japan, may be subject to assessments, generally based on their proportionate share of business written in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants. As we cannot predict the timing of future assessments, they may materially affect the results of operations of our international insurance operations in particular quarterly or annual periods. Under the Japanese insurance guaranty law, all licensed life insurers in Japan are required to be members of and are assessed, on a pre-funded basis, by the Japan Policyholders Protection Corporation ("PPC"). These assessments generate a collective fund which is used to satisfy certain obligations of insolvent insurance companies to policyholders and claimants. The PPC assesses each member in an amount related to its proportionate share of new business written by all member insurers. For the years ended December 31, 2015, 2014, and 2013, we paid approximately $25 million, $26 million, and $27 million, respectively, based on fixed currency exchange rates, in assessments pursuant to Japanese insurance guaranty association laws.

In 2014 and 2015, the FSA announced several amendments to its "Comprehensive Guidelines for Supervision of Insurance Business Operators" and "Inspection Manual for Insurance Companies" addressing enterprise risk management readiness and ORSA. During the same period, the FSA conducted several horizontal reviews of Japanese insurance companies in order to assess current risk management practices. The FSA has periodically released the results of these reviews and intends to continue to encourage insurers to develop risk management systems which are in line with the international insurance supervisory framework, including the Insurance Core Principles adopted by the IAIS. Additionally, insurance companies were required to prepare and submit an ORSA by September 30, 2015. The ORSA requirement is an annual requirement for each Japanese insurance company and its holding company, including Prudential Holdings of Japan, and we submitted an ORSA in accordance with this requirement in 2015.

In addition to the FSA's initiatives, in March 2014, amendments to the Japan Deposit Insurance Law became effective which expand the scope of the Deposit Insurance Corporation of Japan and provide for the development of a new comprehensive regime for the resolution of financial institutions, including life insurance companies. The amendments are in accordance with commitments made by the Government of Japan in connection with policies agreed to among the G20 financial ministers and recommendations of the FSB for the development of an effective orderly resolution framework for dealing with a financial crisis caused by severe market disruptions.

In 2013, the FSA indicated its intention to develop a new comprehensive regime for the resolution of financial institutions, including life insurance companies. The enabling legislation for the establishment of the regime was enacted in 2013, and new regulations to effectuate these changes were released in 2015. The primary impact of the regulations has been the inclusion of insurance companies in the comprehensive resolution framework for dealing with a financial crisis, discussed above.

Our international businesses are subject to the tax laws and regulations of the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation that could impact the amount of taxes that we pay or impact the sales of our products.

On March 20, 2014, Japan repealed the Special Reconstruction Corporation Tax reducing the national corporate tax rate from 28.05% to 25.5% for tax years beginning on or after April, 1, 2014. The national corporate rate was further

reduced to 23.9% for tax years beginning on or after April 1, 2015. There is a proposal to further reduce the national corporate rate to 23.4% for tax years beginning on or after April 1, 2016 and to 23.2% for tax years beginning on or after April 1, 2018. The Japanese consumption tax rate increased on April 1, 2014 from 5% to 8%. The consumption tax rate is scheduled to increase to 10% on April 1, 2017. Insurance commissions paid to our Life Planners and Life Consultants are subject to consumption tax for individuals exceeding certain earnings thresholds; however, the tax is not charged on employee compensation (other than commissions) or insurance premiums. The consumption tax increase has led to increased costs for insurers.

Effective in January 2015, Japan amended its inheritance tax laws, which lowered the exemption amount and increased tax rates. The increase in this tax could make protection products more attractive to our customers as they look for ways to manage the increased inheritance tax burden.

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Employees

As of December 31, 2015, we had 49,384 employees and sales associates, including 28,810 located outside of the U.S. We believe our relations with our employees and sales associates are satisfactory.

Available Information

Prudential Financial files periodic and current reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be obtained through the SEC's website (www.sec.gov) or by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington D.C. 20549 or calling the SEC at 1-800-SEC-0330.

You may also access our press releases, financial information and reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those Forms) online at www.investor.prudential.com. Copies of any documents on our website are available without charge, and reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under "Forward-Looking Statements" above and the risks of our businesses described elsewhere in this Annual Report on Form 10-K. Many of these risks are interrelated and could occur under similar business and economic conditions, and the occurrence of certain of them may in turn cause the emergence or exacerbate the effect of others. Such a combination could materially increase the severity of the impact of these risks on our businesses, results of operations, financial condition and liquidity.

Risks Relating to Economic, Market and Political Conditions

Market fluctuations and general economic, market and political conditions may adversely affect our business and profitability.

Our businesses and our results of operations may be materially adversely affected by conditions in the global financial markets and by economic conditions generally.

Even under relatively favorable market conditions, our insurance, annuity and investment products, as well as our investment returns and our access to and cost of financing, are sensitive to fixed income, equity, real estate and other market fluctuations and general economic, market and political conditions. These fluctuations and conditions could adversely affect our results of operations, financial position and liquidity, including in the following respects:

- The profitability of many of our insurance and annuity products depends in part on the value of the separate accounts supporting these products, which can fluctuate substantially depending on the foregoing conditions.
- Market conditions resulting in reductions in the value of assets we manage or lower transaction volume have an adverse effect on the revenues and profitability of our asset management business, which depends on fees related primarily to the value of assets under management or transaction volume, and could decrease the value of our strategic investments.
- A change in market conditions, such as high inflation and high interest rates, could cause a change in consumer sentiment and behavior adversely affecting sales and persistency of our savings and protection products. Conversely,

low inflation and low interest rates could cause persistency of these products to vary from that anticipated and adversely affect profitability (as further described below). Similarly, changing economic conditions and unfavorable public perception of financial institutions can influence customer behavior, including increasing claims or surrenders in certain product lines.

- Sales of our investment-based and asset management products and services may decline, and lapses and surrenders of certain insurance products and withdrawals of assets from investment products may increase if a market downturn, increased market volatility or other market conditions result in customers becoming dissatisfied with their investments or products.

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- A market decline could further result in guaranteed minimum benefits contained in many of our variable annuity products being higher than current account values or our pricing assumptions would support, requiring us to materially increase reserves for such products, and may cause customers to retain contracts in force in order to benefit from the guarantees, thereby increasing their cost to us. Any increased cost may or may not be offset by the favorable impact of greater persistency from prolonged fee streams. Our valuation of the liabilities for the minimum benefits contained in many of our variable annuity products requires us to consider the market perception of our risk of non-performance, and a decrease in our own credit spreads resulting from ratings upgrades or other events or market conditions could cause the recorded value of these liabilities to increase, which in turn could adversely affect our results of operations and financial position.
- Market conditions determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms which could adversely affect the profitability of future business or our willingness to write future business.
- Derivative instruments we hold to hedge and manage foreign exchange risk, interest rate and equity risks associated with our products and businesses, and other risks might not perform as intended or expected resulting in higher realized losses and unforeseen stresses on liquidity. Market conditions can limit availability of hedging instruments, require us to post additional collateral, and also further increase the cost of executing product related hedges and such costs may not be recovered in the pricing of the underlying products being hedged. Our derivative-based hedging strategies also rely on the performance of counterparties to such derivatives. These counterparties may fail to perform for various reasons resulting in losses on uncollateralized positions.
- We have significant investment and derivative portfolios, including but not limited to corporate and asset-backed securities, foreign government securities (primarily those of the Japanese government), equities and commercial real estate. Economic conditions as well as adverse capital market conditions, including a lack of buyers in the marketplace, volatility, credit spread changes, benchmark interest rate changes, changes in foreign currency exchange rates and declines in value of underlying collateral may impact the credit quality, liquidity and value of our investments and derivatives, potentially resulting in higher capital charges and unrealized or realized losses. Valuations may include assumptions or estimates that may have significant period to period changes which could have a material adverse effect on our results of operations or financial condition.
- Opportunities for investment of available funds at appropriate returns may be limited, including due to the current low interest rate environment, a diminished securitization market or other factors, with possible negative impacts on our overall results. Limited opportunities for attractive investments may lead to holding cash for long periods of time and increased use of derivatives for duration management and other portfolio management purposes. The increased use of derivatives may increase the volatility of our U.S. GAAP results and our statutory capital.
- Regardless of market conditions, certain investments we hold, including private bonds, commercial mortgages and alternative asset classes (such as private equity, hedge funds and real estate) are relatively illiquid. If we needed to sell these investments, we may have difficulty doing so in a timely manner at a price that we could otherwise realize.
- Certain features of our products and components of investment strategies depend on active and liquid markets, and, if market liquidity is strained or the capacity of the financial markets to absorb our transactions is inadequate, these products may not perform as intended.
- Fluctuations in our operating results as well as realized gains and losses on our investment and derivative portfolios may impact the Company’s tax profile and its ability to optimally utilize tax attributes.
- Disruptions in individual market sectors within our investment portfolio could result in significant realized and unrealized losses. For example, during 2015 the energy sector and extractive enterprises, which are historically cyclical, experienced significant drops in prices, resulting in increased impairments and unrealized losses in these parts of our investment portfolio. If energy and other commodity prices remain low for an extended period, we could experience additional losses.

Our investments, results of operations and financial condition may be adversely affected by developments in the global economy, in the U.S. economy (including as a result of actions by the Federal Reserve with respect to monetary

policy, and adverse political developments), and in the Japanese economy (including due to the effects of inflation or deflation, interest rate volatility, changes in the Japan sovereign credit rating, and material changes in the value of the Japanese yen relative to the U.S. dollar). Global, U.S. or Japanese economic activity and financial markets may in turn be negatively affected by adverse developments or conditions in specific geographical regions.

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Interest rate fluctuations or prolonged periods of low interest rates could adversely affect our businesses and profitability and require us to increase reserves or statutory capital and subject us to additional collateral posting requirements.

Our insurance and annuity products and certain of our investment products, and our investment returns, are sensitive to interest rate fluctuations, and changes in interest rates could adversely affect our investment returns and results of operations, including in the following respects:

- Some of our products expose us to the risk that changes in interest rates will reduce the spread between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on our general account investments supporting the contracts. When interest rates decline or remain low, as they have in recent years, we have to reinvest in lower-yielding instruments, potentially reducing net investment income. Since many of our policies and contracts have guaranteed minimum interest crediting rates or limit the resetting of interest rates, the spreads could decrease and potentially become negative, or go further negative. When interest rates rise, we may not be able to replace the assets in our general account as quickly with the higher-yielding assets needed to fund the higher crediting rates necessary to keep these products and contracts competitive. In addition, rising interest rates could cause a decline in the market value of fixed income assets the Company manages which in turn could result in lower asset management fees earned.
- Changes in interest rates can also result in potential losses in our investment activities in which we borrow funds and purchase investments to earn additional spread income on the borrowed funds.
- When interest rates rise, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns, requiring us to sell investment assets potentially resulting in realized investment losses, or requiring us to accelerate the amortization of deferred acquisition costs (“DAC”), deferred sales inducements (“DSI”) or value of business acquired (“VOBA”). In addition, increasing interest rates could cause capital strain due to lower solvency margin levels of our Japanese insurance subsidiaries because the carrying value of bonds classified as available-for-sale would decline while the carrying value of liabilities would generally remain unchanged. Also, an increase in interest rates accompanied by unexpected extensions of certain lower-yielding investments could reduce our profitability.
- Changes in interest rates could subject us to increased collateral posting requirements related to hedging activities associated with some of our products.
- Changes in interest rates could require us to contribute capital to subsidiaries to support our annuities business, which occurred during 2015.
- Changes in interest rates coupled with greater than expected client withdrawals for certain products can result in increased costs associated with our guarantees.
- Changes in interest rates could increase our costs of financing.
- Our mitigation efforts with respect to interest rate risk are primarily focused on maintaining an investment portfolio with diversified maturities that has a key rate duration profile that is approximately equal to the key rate duration profile of our estimated liability cash flow profile; however, this estimate of the liability cash flow profile is complex and could turn out to be inaccurate, especially when markets are volatile. In addition, there are practical and capital market limitations on our ability to accomplish this matching. Due to these and other factors we may need to liquidate investments prior to maturity at a loss in order to satisfy liabilities or be forced to reinvest funds in a lower rate environment. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to effectively mitigate, and we may sometimes choose based on economic considerations and other factors not to fully mitigate, the interest rate risk of our assets relative to our liabilities.
- For certain of our products, a delay between the time we make changes in interest rate and other assumptions used for product pricing and the time we are able to reflect these assumptions in products available-for-sale could negatively impact the long-term profitability of products sold during the intervening period.

Recent periods have been characterized by low interest rates. A prolonged period during which interest rates remain at levels lower than those anticipated in our pricing may result in greater costs associated with certain of our product features which guarantee death benefits or income streams for stated periods or for life; higher costs for derivative instruments used to hedge certain of our product risks; or shortfalls in investment income on assets supporting policy obligations, each of which may require us to record charges to increase reserves. In addition to compressing spreads and reducing net investment income, such an environment may cause policies to remain in force for longer periods than we anticipated in our pricing, potentially resulting in greater claims costs than we expected and resulting in lower overall returns on business in force. Reflecting these impacts in recoverability and loss recognition testing under U.S. GAAP may require us to accelerate the amortization of DAC, DSI or VOBA as noted above, as well as to increase required reserves for future policyholder benefits. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates, and a period of declining or low interest rates may increase the statutory capital we are required to hold as well as the amount of assets we must maintain to support statutory reserves.

Adverse capital market conditions could significantly affect our ability to meet liquidity needs, our access to capital and our cost of capital, including capital that may be required by our subsidiaries. Under such conditions, we may seek additional debt or equity capital but may be unable to obtain it.

Adverse capital market conditions could affect the availability and cost of borrowed funds and could impact our ability to refinance existing borrowings, thereby ultimately impacting our profitability and ability to support or grow our businesses. We need liquidity to pay our operating expenses, interest and maturities on our debt and dividends on our capital stock. During times of market stress, our internal sources of liquidity may prove to be insufficient and some of our alternative sources of liquidity, such as commercial paper issuance, securities lending and repurchase arrangements and other forms of borrowings in the capital markets, may be unavailable to us.

Disruptions, uncertainty and volatility in the financial markets may force us to delay raising capital, issue shorter tenor securities than would be optimal, bear an unattractive cost of capital or be unable to raise capital at any price, which could decrease our profitability and significantly reduce our financial flexibility.

We may seek additional debt or equity financing to satisfy our needs; however, the availability of additional financing depends on a variety of factors such as market conditions, the availability of credit, and our credit ratings and credit capacity. We may not be able to successfully obtain additional financing on favorable terms, or at all. Actions we might take to access financing may in turn cause rating agencies to reevaluate our ratings. Further, any future equity offerings would dilute the ownership interest of existing shareholders.

Disruptions in the capital markets could adversely affect our ability to access sources of liquidity, as well as threaten to reduce our capital below a level that is consistent with our existing ratings objectives. Therefore, we may need to take actions, which may include but are not limited to: (1) access contingent sources of capital and liquidity available through our Capital Protection Framework; (2) further access other external sources of capital, including the debt or equity markets; (3) reduce or eliminate future share repurchases or shareholder dividends; (4) undertake additional capital management activities, including reinsurance transactions; (5) limit or curtail sales of certain products and/or restructure existing products; (6) undertake further asset sales or internal asset transfers; (7) seek temporary or permanent changes to regulatory rules; and (8) maintain greater levels of cash balances or for longer periods thereby reducing investment returns. Certain of these actions may require regulatory approval and/or agreement of counterparties which are outside of our control or have economic costs associated with them.

Fluctuations in foreign currency exchange rates could adversely affect our profitability, financial condition and cash flows, as well as increase the volatility of our results of operations under U.S. GAAP.

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are exposed to foreign currency exchange risks that could reduce the U.S. dollar-equivalent earnings and equity of these operations. We enter into derivative contracts in order to hedge the future income of certain of our international subsidiaries. Further, our Japanese subsidiaries hold U.S. dollar-denominated assets as a way for us to mitigate the effect of fluctuations in the yen exchange rate on our U.S. dollar-equivalent equity in these subsidiaries. We seek to mitigate volatility in the local solvency margins of our Japanese subsidiaries due to holding these U.S. dollar-denominated investments by entering into inter-company currency derivatives. Notwithstanding this strategy, in recent years the value of the yen has declined against the U.S. dollar, and our results have reflected the impact of translating yen-denominated earnings into U.S. dollars at increasingly unfavorable exchange rates. As a result of these unfavorable exchange rate movements, the U.S. dollar equivalent of our yen earnings has declined and will continue to decline in 2016. Conversely, a significant strengthening of the yen could adversely impact the value of our hedges and U.S. dollar-denominated investments held in our Japanese subsidiaries and could result in additional liquidity or capital needs for our International Insurance operations. Further currency fluctuations could adversely affect our

results of operations, cash flows or financial condition as a result of these derivative positions or due to foreign income or equity investments that are not hedged.

We hold investments denominated in foreign currencies in the general account of our domestic insurance subsidiaries. We generally seek to hedge this foreign currency exposure but there is no assurance that we will fully hedge this exposure or that such hedges will be effective. The value and liquidity of our foreign currency investments could be adversely affected by local market, economic and financial conditions. For example, our investments denominated in euro could be adversely affected by unfavorable economic conditions in Europe, including due to potential changes in the euro or to the structure or membership of the European Monetary Union.

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Risks Relating to Estimates, Assumptions and Valuations

Our profitability may decline if mortality experience, morbidity experience, persistency experience or utilization experience differ significantly from our pricing expectations.

We set prices for many of our insurance and annuity products based upon expected claims and payment patterns, using assumptions for mortality rates (the likelihood of death or the likelihood of survival), morbidity rates (the likelihood of sickness or disability), and improvement trends in mortality and morbidity of our policyholders. In addition to the potential effect of natural or man-made disasters, significant changes in mortality or morbidity could emerge gradually over time, due to changes in the natural environment, the health habits of the insured population, treatment patterns and technologies for disease or disability, the economic environment, or other factors. In addition, technological and medical advances may affect how consumers investigate and purchase products, and in the future consumers may be informed by confidential genetic information or mortality projections that are not available to us.

Pricing of our insurance and deferred annuity products are also based in part upon expected persistency of these products, which is the probability that a policy or contract will remain in force from one period to the next. Persistency within our annuities business may be significantly impacted by the value of guaranteed minimum benefits contained in many of our variable annuity products being higher than current account values in light of poor equity market performance or extended periods of low interest rates as well as other factors. Persistency could be adversely affected generally by developments affecting client perception of us, including perceptions arising from adverse publicity. Many of our products also provide our customers with wide flexibility with respect to the amount and timing of premium deposits and the amount and timing of withdrawals from the policy’s value. Results may vary based on differences between actual and expected premium deposits and withdrawals for these products, especially if these product features are relatively new to the marketplace. The pricing of certain of our variable annuity products that contain certain living benefit guarantees is also based on assumptions about utilization rates, or the percentage of contracts that will utilize the benefit during the contract duration, including the timing of the first lifetime income withdrawal. Results may vary based on differences between actual and expected benefit utilization. The development of a secondary market for life insurance, including life settlements or “viaticals” and investor owned life insurance, and third-party investor strategies in the annuities business, could adversely affect the profitability of existing business and our pricing assumptions for new business.

Significant deviations in actual experience from our pricing assumptions could have an adverse effect on the profitability of our products. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy or contract, the adjustments permitted under the terms of the policies or contracts may not be sufficient to maintain profitability or may cause the policies or contracts to lapse. For our long-term care insurance products, our assumptions for reserves for future policy benefits have factored in an estimate of the timing and amount of anticipated and yet-to-be-filed premium increases which will require state approval. Our actual experience obtaining pricing increases could be materially different than what we have assumed, resulting in further policy liability increases which could be material. Many of our products do not permit us to increase premiums or adjust other charges and credits or limit those adjustments during the life of the policy or contract. Even if permitted under the policy or contract, we may not be able or willing to raise premiums or adjust other charges sufficiently, or at all, for regulatory or competitive reasons.

If our reserves for future policyholder benefits and expenses are inadequate, we may be required to increase our reserves, which would adversely affect our results of operations and financial condition.

We establish reserves in accordance with U.S. GAAP for future policyholder benefits and expenses. While these reserves generally exceed our best estimate of the liability for future benefits and expenses, if we conclude based on updated assumptions that our reserves, together with future premiums, are insufficient to cover future policy benefits

and expenses, including unamortized DAC, DSI or VOBA, we would need to accelerate the amortization of these DAC, DSI or VOBA balances and then increase our reserves and incur income statement charges, which would adversely affect our results of operations and financial condition. The determination of our best estimate of the liability is based on data and models that include many assumptions and projections which are inherently uncertain and involve the exercise of significant judgment, including the levels and timing of receipt or payment of premiums, benefits, expenses, interest credits and investment results (including equity market returns), which depend on actual retirement, mortality, morbidity and persistency experience. We cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and expenses or whether the assets supporting our policy liabilities, together with future premiums, will be sufficient for payment of benefits and expenses. If we conclude that our reserves, together with future premiums, are insufficient to cover future policy benefits and expenses, we may seek to increase premiums where we are able to do so. Updated assumptions may also require us to increase U.S. GAAP reserves for the guarantees in certain long-duration contracts.

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For certain of our products, market performance and interest rates (as well as the regulatory environment, as discussed further below) impact the level of statutory reserves and statutory capital we are required to hold, and may have an adverse effect on returns on capital associated with these products. Our ability to efficiently manage capital and economic reserve levels may be impacted, thereby impacting profitability and returns on capital.

We may be required to accelerate the amortization of DAC, DSI or VOBA, or recognize impairment in the value of certain investments, or be required to establish a valuation allowance against deferred income tax assets, any of which could adversely affect our results of operations and financial condition.

DAC represents the costs that vary with and are directly related to the acquisition of new and renewal insurance and investment contracts, and we amortize these costs over the expected lives of the contracts. DSI represents amounts that are credited to a policyholder's account balance as an inducement to purchase the contract, and we amortize these costs over the expected lives of the contracts. VOBA is an intangible asset which represents an adjustment to the stated value of acquired inforce insurance contract liabilities to present them at fair value, determined as of the acquisition date. Management, on an ongoing basis, tests the DAC, DSI and VOBA recorded on our balance sheet to determine if these amounts are recoverable under current assumptions. In addition, we regularly review the estimates and assumptions underlying DAC, DSI and VOBA for those products for which we amortize DAC, DSI and VOBA in proportion to gross profits or gross margins. Given changes in facts and circumstances, these tests and reviews could lead to reductions in DAC, DSI and/or VOBA that could have an adverse effect on the results of our operations and our financial condition. Among other things, significant or sustained equity market declines as well as investment losses could result in acceleration of amortization of the DAC, DSI and VOBA related to variable annuity and variable universal life contracts, resulting in a charge to income. As discussed earlier, the amortization of DAC, DSI and VOBA are also sensitive to changes in interest rates.

We have operating equity method investments within our International Insurance and Asset Management segments and Corporate and Other operations. Declines in the fair value of these investments may require that we review the remaining carrying value of these investments for potential impairment, and such review could result in impairments and charges to income.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management's determination include the performance of the business including the geographic and legal entity source of our income, the ability to generate capital gains from a variety of sources, and tax planning strategies. If based on available information, it is more likely than not that the deferred income tax asset will not be realized then a valuation allowance must be established with a corresponding charge to net income. Such charges could have a material adverse effect on our results of operations or financial position.

Our valuation of fixed maturity, equity and trading securities may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.

During periods of market disruption, it may be difficult to value certain of our investment securities if trading becomes less frequent or market data becomes less observable. There may be cases where certain assets in normally active markets with significant observable data become inactive with insufficient observable data due to the current financial environment or market conditions. In addition, the fair value of certain securities may be based on one or more significant unobservable inputs even in ordinary market conditions. As a result, valuations may include inputs and assumptions that require greater estimation and judgment as well as valuation methods which are more complex. These values may not be ultimately realizable in a market transaction, and such values may change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value may have a material adverse

effect on our results of operations or financial condition.

The decision on whether to record an other-than-temporary impairment or write-down is determined in part by management's assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability of the particular security. Management's conclusions on such assessments are highly judgmental and include assumptions and projections of future cash flows which may ultimately prove to be incorrect as assumptions, facts and circumstances change.

Changes in our discount rate, expected rate of return, life expectancy, health care cost and expected compensation increase assumptions for our pension and other postretirement benefit plans may result in increased expenses and reduce our profitability.

We determine our pension and other postretirement benefit plan costs based on assumed discount rates, expected rates of return on plan assets, life expectancy of plan participants and expected increases in compensation levels and trends in health care costs. Changes in these assumptions may result in increased expenses and reduce our profitability.

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Credit and Counterparty Risks

An inability to access our credit facility could have a material adverse effect on our financial condition and results of operations.

We maintain a committed unsecured revolving credit facility. We rely on this credit facility as a potential source of liquidity which could be critical in enabling us to meet our obligations as they come due, particularly during periods when alternative sources of liquidity are limited. Our ability to borrow under this facility is conditioned on our satisfaction of covenants and other requirements, such as our maintenance of a prescribed minimum level of consolidated net worth calculated in accordance with the agreement. Our failure to satisfy this and other requirements would restrict our access to the facility when needed and, consequently, could have a material adverse effect on our liquidity, financial condition and results of operations.

A downgrade or potential downgrade in our financial strength or credit ratings could limit our ability to market products, increase policy surrenders and withdrawals, require us to post collateral, increase our borrowing costs and/or hurt our relationships with creditors, distributors, reinsurers or trading counterparties and restrict our access to alternative sources of liquidity.

A downgrade in our financial strength or credit ratings could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements, and/or hurt our relationships with creditors, distributors, reinsurers or trading counterparties thereby potentially negatively affecting our profitability, liquidity and/or capital.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could result in additional collateral requirements or other required payments under certain agreements, including derivative agreements, which are eligible to be satisfied in cash or by posting securities held by the subsidiaries subject to the agreements. In addition, a ratings downgrade by A.M. Best to “A-” for our domestic life insurance companies would require Prudential Insurance to post a letter of credit in the amount of approximately $1.5 billion, based on the level of statutory reserves related to the variable annuity business acquired from Allstate.

Prudential Insurance is a member of the FHLBNY. Membership allows Prudential Insurance access to FHLBNY’s financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements that can be used as an alternative source of liquidity. Under FHLBNY guidelines, if Prudential Insurance’s financial strength ratings decline below A/A2/A Stable by Standard & Poor’s Rating Services, or S&P, Moody’s Investors Service, Inc., or Moody’s, and Fitch Ratings Ltd., or Fitch, respectively, and the FHLBNY does not receive written assurances from the New Jersey Department of Banking and Insurance regarding Prudential Insurance’s solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Although Prudential Insurance’s ratings are currently at or above the required minimum levels, there can be no assurance that the ratings will remain at these levels in the future.

We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. Our ratings could be downgraded at any time and without advance notice by any rating agency. In addition, a sovereign downgrade could result in a downgrade of our subsidiaries operating in that jurisdiction, and ultimately of Prudential Financial and our other subsidiaries. For example, in September 2015, S&P downgraded Japan's sovereign rating to A+ with a 'Stable' outlook citing uncertainties around the strength of economic growth and weak fiscal positions. As a result, S&P subsequently

lowered the ratings of a number of institutions in Japan, including our Japanese insurance subsidiaries. It is possible that Japan's sovereign rating could be subject to further downgrades, which would result in further downgrades of our insurance subsidiaries in Japan. Given the importance of our operations in Japan to our overall results, such downgrades could lead to a downgrade of Prudential Financial and our domestic insurance companies.

Losses due to defaults by others, including issuers of investment securities, reinsurers and derivatives counterparties, insolvencies of insurers in jurisdictions where we write business and other factors could adversely affect the value of our investments, the realization of amounts contractually owed to us, result in assessments or additional statutory capital requirements or reduce our profitability or sources of liquidity.

Issuers and borrowers whose securities or loans we hold, customers, vendors, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors, including bond insurers, may default on their obligations to us or be unable to perform service functions that are significant to our business due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Such defaults could have an adverse effect on our results of operations and financial condition.

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We use derivative instruments to hedge various risks, including certain guaranteed minimum benefits contained in many of our variable annuity products. We enter into a variety of derivative instruments, including options, forwards, interest rate, credit default and currency swaps with a number of counterparties. We also enter into reinsurance arrangements as a risk mitigation strategy for our insurance and annuity products. Amounts that we expect to collect under current and future derivatives or reinsurance contracts are subject to counterparty risk. Our obligations under our products are not changed by our hedging activities or reinsurance arrangements and we are liable for our obligations even if our derivative counterparties or reinsurers do not pay us. Such defaults could have a material adverse effect on our financial condition and results of operations. In addition, ratings downgrades or financial difficulties of derivative counterparties or reinsurers may require us to utilize additional capital with respect to the impacted businesses.

Under state insurance guaranty association laws and similar laws in international jurisdictions, we are subject to assessments, based on the share of business we write in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants.

Our investment portfolio is subject to risks that could diminish the value of our invested assets and the amount of our investment income, which could have an adverse effect on our results of operations or financial condition.

We record unrealized gains or losses on securities classified as “available-for-sale” in other comprehensive income (loss), and in turn recognize gains or losses in earnings when the gain or loss is realized upon the sale of the security or in the event that the decline in estimated fair value is determined to be other-than-temporary.

The occurrence of a major economic downturn, acts of corporate malfeasance, widening credit spreads, or other events that adversely affect the issuers or guarantors of securities or the underlying collateral of structured securities could cause (i) the market price of fixed maturity securities in our investment portfolio to decline, which could cause us to record gross unrealized losses, (ii) earnings on those securities to decline, which could result in lower earnings, and (iii) ultimately defaults, which could result in a charge to earnings. A ratings downgrade affecting issuers or guarantors of particular securities, or similar trends that could worsen the credit quality of our investments could also have a similar effect. In addition, a ratings downgrade affecting a security we hold could indicate the credit quality of that security has deteriorated and could increase the capital we must hold to maintain our RBC and SMR levels.

Our non-coupon investment portfolio is subject to additional risks. We invest a portion of our investments in hedge funds and private equity funds. The amount and timing of net investment income from such funds tends to be uneven as a result of the performance of the underlying investments. The timing of distributions from such funds, which depends on particular events relating to the underlying investments, as well as the funds’ schedules for making distributions and their needs for cash, can be difficult to predict. As a result, the amount of net investment income from these investments can vary substantially from quarter to quarter. Significant volatility could adversely impact returns and net investment income on these investments. In addition, the estimated fair value of such investments may be impacted by downturns or volatility in equity markets. In our real estate portfolio, we are subject to declining prices or cash flows as a result of changes in the supply and demand of leasable space, creditworthiness of tenants and partners and other factors.

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Certain Product Related Risks

Guarantees within certain of our products that protect policyholders may decrease our earnings or increase the volatility of our results of operations or financial position under U.S. GAAP if our hedging or risk management strategies prove ineffective or insufficient.

Certain of our products, particularly our variable annuity products, include guarantees of minimum surrender values or income streams for stated periods or for life, which may be in excess of account values. Downturns in equity markets, increased equity volatility, or (as discussed above) reduced interest rates could result in an increase in the valuation of liabilities associated with such guarantees, resulting in increases in reserves and reductions in net income. We use a variety of hedging and risk management strategies, including product features and external reinsurance, to mitigate these risks in part and we may periodically change our strategies over time. These strategies may, however, not be fully effective. In addition, we may be unable or may choose not to fully hedge these risks. Hedging instruments may not effectively offset the costs of guarantees or may otherwise be insufficient in relation to our obligations. Hedging instruments also may not change in value correspondingly with associated liabilities due to equity market or interest rate conditions or other reasons. We sometimes choose to hedge these risks on a basis that does not correspond to their anticipated or actual impact upon our results of operations or financial position under U.S. GAAP. Changes from period to period in the valuation of these policy benefits, and in the amount of our obligations effectively hedged, will result in volatility in our results of operations and financial position under U.S. GAAP and the statutory capital levels of our insurance subsidiaries. Estimates and assumptions we make in connection with hedging activities may fail to reflect or correspond to our actual long-term exposure in respect of our guarantees. Further, the risk of increases in the costs of our guarantees not covered by our hedging and other capital and risk management strategies may become more significant due to changes in policyholder behavior driven by market conditions or other factors. The above factors, individually or collectively, may have a material adverse effect on our results of operations, financial condition or liquidity. In addition, the NAIC has outlined a framework for changing the laws around the use of captive reinsurance companies to reinsure variable annuities, which may ultimately impact how we hedge our variable annuity risks. See “Regulatory and Legal Risks—Our businesses are heavily regulated and changes in regulation may adversely affect our results of operations and financial condition” below.

We may not be able to mitigate the reserve strain associated with Regulation XXX and Guideline AXXX, potentially resulting in a negative impact on our capital position or in a need to increase prices and/or reduce sales of term or universal life products.

The states of domicile of our domestic insurance subsidiaries have in place a regulation entitled “Valuation of Life Insurance Policies,” commonly known as “Regulation XXX,” and a supporting Guideline entitled “The Application of the Valuation of Life Insurance Policies,” commonly known as “Guideline AXXX.” The Regulation and supporting Guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees at a level that exceeds what our actuarial assumptions for this business would otherwise require. We have typically financed the portion of the statutory reserves for this business that we consider to be non-economic through the use of captive reinsurance companies. As we continue to underwrite term and universal life business, we expect to have additional financing needs for these reserves. However, if we are unsuccessful in obtaining additional financing as a result of market conditions, regulatory changes or otherwise, this could require us to increase prices and or/reduce our sales of term or universal life products and/or have a negative impact on our capital position. In addition, we are subject to a new regulation that affects the types of assets we can use in captive reinsurance companies to back the reserves we hold for term and universal life products. See “Regulatory and Legal Risks—Our businesses are heavily regulated and changes in regulation may adversely affect our results of operations and financial condition” below.

We may experience difficulty in marketing and distributing products through our current and future distribution channels.

Although we distribute our products through a wide variety of distribution channels, we do maintain relationships with certain key distributors. For example, a significant amount of our sales in Japan through banks is derived through a single major Japanese bank and a significant portion of our sales in Japan through Life Consultants is derived through a single association relationship. We periodically negotiate the terms of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. An interruption in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our business, operating results and financial condition. Distributors may elect to reduce or terminate their distribution relationships with us, including for such reasons as adverse developments in our business, adverse rating agency actions or concerns about market-related risks. We are also at risk that key distribution partners may merge, change their business models in ways that affect how our products are sold, or terminate their distribution contracts with us, or that new distribution channels could emerge and adversely impact the effectiveness of our distribution efforts. An increase in bank and broker-dealer consolidation activity could increase competition for access to distributors, result in greater distribution expenses and impair our ability to market products through these channels. Consolidation of distributors and/or other industry changes may also increase the likelihood that distributors will try to renegotiate the terms of any existing selling agreements to terms less favorable to us.

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When our products are distributed through unaffiliated firms, we may not be able to monitor or control the manner of their distribution despite our training and compliance programs. If our products are distributed by such firms in an inappropriate manner, or to customers for whom they are unsuitable, we may suffer reputational and other harm to our business.

Regulatory and Legal Risks

Our businesses are heavily regulated and changes in regulation may adversely affect our results of operations and financial condition.

Our businesses are subject to comprehensive regulation and supervision. The purpose of this regulation is primarily to protect our customers and not necessarily our shareholders or debt holders. Many of the laws and regulations to which we are subject, including those to which our international businesses are subject, are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. The financial market dislocations we have experienced have produced, and are expected to continue to produce, extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the U.S. and internationally.

Prudential Financial, the holding company for all of our operations, is subject to supervision by the FRB as a "Designated Financial Company" pursuant to Dodd-Frank. As a Designated Financial Company, Prudential Financial is and will be subject to substantial additional regulation as discussed further herein. In addition, the FSB identified Prudential Financial as a G-SII. As a result, U.S. financial regulators are expected to enhance their regulation of Prudential Financial to achieve a number of regulatory objectives. This additional regulation has increased and is likely to continue to increase our operational, compliance and risk management costs, and could have an adverse effect on our business, results of operations or financial condition, including potentially increasing our capital levels and requiring us to hold additional liquid assets and therefore reducing our return on capital.

In 2015 NJDOBI became Prudential Financial's group-wide supervisor pursuant to legislation adopted by the state. We cannot predict what additional requirements or costs may result from NJDOBI's assertion of group-wide supervisor status with respect to Prudential Financial. See "Business—Regulation—Insurance Holding Company Regulation."

As a result of a February 2014 agreement with the NY DFS regarding our reserving methodologies for certain variable annuity and life insurance products, certain of our New York licensed insurance subsidiaries hold additional statutory reserves on a New York basis, which reduces their New York statutory surplus. While these subsidiaries held sufficient statutory surplus on a New York basis as of December 31, 2015 to satisfy these additional reserves, the agreed reserve methodologies may require us to hold additional New York statutory reserves in the future. If we are required to establish material additional reserves on a New York statutory accounting basis or post material amounts of additional collateral with respect to annuity or insurance products, our ability to deploy capital held within our U.S. domestic insurance subsidiaries for other purposes could be affected.

The NAIC and state insurance regulators have increased their focus on life insurers' use of captive reinsurance companies. In December 2014, the NAIC adopted AG 48 that applies to certain life insurance captive reinsurance transactions. In addition, in November 2015, the NAIC adopted the Variable Annuities Framework for Change, which outlines the NAIC's commitment to change in concept the statutory framework to address concerns that have led to the development and utilization of captive reinsurance transactions for variable annuity business in order to create more consistency across regulators and remove incentives for insurers to cede risk to captives. See Business—Regulation—Insurance Operations—State Insurance Regulation—Captive Reinsurance Companies" for information on AG 48, the Variable Annuities Framework for Change and our use of captive reinsurance companies.

For business ceded to captive reinsurance companies, AG 48 will require us to hold cash or rated securities in greater amounts than we previously held to support economic reserves for certain of our term and universal life policies. While we continue to work with regulators and industry participants on potential long-term solutions, AG 48 may ultimately adversely affect our ability to write certain products and efficiently manage their associated risks and we may need to increase prices and/or reduce sales of certain products, modify certain products or find alternate financing sources, any of which could adversely affect our competitiveness, capital and financial position and results of operations. Furthermore, we cannot predict what, if any, changes may result from the Variable Annuities Framework for Change, and if applicable insurance laws are changed in a way that impairs our ability to write variable annuities and efficiently manage their associated risks, we may need to increase prices or modify our products, which could also adversely affect our competitiveness, capital and financial position and results of operations.

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Other NAIC or state insurance regulator actions, such as the adoption of principles-based reserving or changes to RBC calculations, may adversely impact our business from time to time. The failure of Prudential Insurance and our other domestic insurance subsidiaries to meet applicable RBC requirements or minimum statutory capital and surplus requirements could subject those subsidiaries to further examination or corrective action by state insurance regulators. The failure to maintain the RBC ratios of Prudential Insurance and our other domestic insurance subsidiaries at desired levels could also adversely impact our competitive position, including as a result of downgrades to our financial strength ratings. Our international insurance companies are subject to conceptually similar measures of capital adequacy, including solvency margin ratios for our Japanese insurance companies, and we face similar risks as those described for our domestic companies in the event that we are unable to maintain these measures at adequate levels. Further, adverse financial performance in the Closed Block, including adverse investment performance, may adversely affect Prudential Insurance’s RBC ratios in the short term, although dividends to Closed Block policyholders may be subsequently adjusted to reflect such performance.

In some cases, our reserves include assumptions about the availability of government benefits that are controlled by legislative or regulatory processes. To the extent the outcomes of these processes differ from our expectations, we may experience adverse effects on our financial condition. For example, since Social Security Disability Insurance ("SSDI") benefits are an offset to the benefits payable under group disability policies, any decrease in SSDI benefits, or changes in eligibility, could have a significant impact on the group disability market, including reserve impacts and increases in the cost of benefits.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business, and thereby have a material adverse effect on our financial condition or results of operations.

See “Business—Regulation” for discussion of regulation of our businesses.

The Dodd-Frank Wall Street Reform and Consumer Protection Act subjects us to substantial additional federal regulation and we cannot predict the effect on our business, results of operations, cash flows or financial condition.

In 2013, the Council made a final determination that Prudential Financial should be subject to stricter prudential regulatory standards and supervision by the FRB as a “Designated Financial Company” pursuant to Dodd-Frank, thereby subjecting us to substantial federal regulation, much of it pursuant to regulations not yet promulgated. Dodd-Frank directs existing and newly-created government agencies and bodies to promulgate regulations implementing the law, a process that is underway and expected to continue over the next few years. We cannot predict the timing or requirements of the regulations not yet adopted under Dodd-Frank or how such regulations will impact our business, credit or financial strength ratings, results of operations, cash flows, financial condition or competitive position. Furthermore, we cannot predict whether such regulations will make it advisable or how regulators will advise or require us to hold or raise additional capital or liquid assets, potentially affecting capital deployment activities, including buying back shares or paying dividends. Key aspects of Dodd-Frank’s impact on us include:

- As a Designated Financial Company, Prudential Financial is now subject to supervision and examination by the FRB and to stricter prudential standards, which include or will include requirements and limitations (many of which are the subject of ongoing rule-making) relating to capital, leverage, liquidity, stress-testing, overall risk management, credit exposure reporting, early remediation, managing interlocks, credit concentration, and resolution and recovery planning. If the FRB and the FDIC jointly determine that our resolution plan is deficient, they may impose more stringent capital, leverage, or liquidity requirements, or restrictions on our growth, activities, or operations. Any continuing failure to adequately remedy the deficiencies could result in the FRB and the FDIC jointly, in consultation with the Council, ordering divestiture of certain operations or assets. In addition, failure to meet defined measures of financial condition could result in substantial restrictions on our business and capital distributions. We will also be

subject to stress tests to be promulgated by the FRB which could cause us to alter our business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors of our financial strength. We cannot predict the requirements of the regulations not yet adopted or how the FRB will apply these prudential standards to us. As a Designated Financial Company, Prudential Financial must also seek pre-approval from the FRB for acquisition of certain companies engaged in financial activities.

- As a Designated Financial Company, we could also be subject to additional capital requirements for, and other restrictions on, proprietary trading and sponsorship of, and investment in, hedge, private equity and other covered funds.
- The Council could recommend new or heightened standards and safeguards for activities or practices in which we and other financial services companies engage. We cannot predict whether any such recommendations will be made or their effect on our business, results of operations, cash flows or financial condition.

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- Dodd-Frank created a new framework for regulation of the OTC derivatives markets which could impact various activities of PGF, Prudential Financial and our insurance subsidiaries, which use derivatives for various purposes (including hedging interest rate, foreign currency and equity market exposures). While many of the regulations required to be promulgated under Dodd-Frank or internationally with respect to derivatives markets have been adopted by the applicable regulatory agencies, the regulations that remain to be adopted or that have not been fully implemented could substantially increase the cost of hedging and related operations, affect the profitability of our products or their attractiveness to our clients or cause us to alter our hedging strategy or implementation thereof or increase and/or change the composition of the risks we do not hedge. In particular, we continue to monitor increased capital requirements for derivatives transactions that may be imposed on banks that are our counterparties.
- Title II of Dodd-Frank provides that a financial company such as Prudential Financial may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the FDIC as receiver, upon a determination that the Company is in default or in danger of default and presents a systemic risk to U.S. financial stability, and our U.S. insurance subsidiaries would be subject to rehabilitation and liquidation proceedings under state insurance law. We cannot predict how creditors of Prudential Financial or its insurance and non-insurance subsidiaries, including the holders of Prudential Financial debt, will evaluate this potential or whether it will impact our financing or hedging costs.

See “Business—Regulation” for further discussion of the impact of Dodd-Frank on our businesses.

Changes in the laws and regulations relating to retirement products and services, including proposed regulations released by the DOL in 2015, could adversely affect our business, results of operations, cash flows and financial condition.

In April 2015, the DOL released a proposed regulation, accompanied by new class exemptions and proposed amendments to long-standing exemptions from the prohibited transaction provisions under ERISA, and it is expected that the DOL will promulgate final rules in 2016. If enacted, the rules will redefine who would be considered a “fiduciary” for purposes of transactions with plans, plan participants and IRAs. We cannot predict the exact nature and scope of any new final rules or their impact on our business; however, the new rules may effectively impose limits on interactions with existing and prospective customers in our Individual Life (including Prudential Advisors), Individual Annuities, Asset Management, Retirement and Group Insurance businesses. In addition, we may experience increased costs if we need to adapt our technology and operational infrastructure to meet disclosure and compliance requirements under the proposed rules. Our compliance with the proposed rules could lead to a loss of customers and revenues, and otherwise adversely affect our business, results of operations, cash flows and financial condition. If the proposed rules are adopted in their current form, significant potential impacts on certain of our businesses would include the following.

- Prudential Advisors: We expect compliance with a new “best interest contract exemption” may be required for IRA and small plan retirement accounts for a wide range of products, representing a significant part of Prudential Advisors’ total business. This would impose compliance and contract requirements and would give customers a private right of action for breach of contract if an advisor provides advice that is not in the customer’s best interest. We expect this would result in additional costs, oversight and litigation risks, as well as changes to compensation and benefit structures and may require us to review product offerings to ensure a sufficient variety of non-proprietary options.
- Annuities: Certain distributors may restrict the sale of annuities, and may remove themselves as broker of record, transitioning servicing and compliance back to Prudential. In addition, we may need to alter our product design to comply with the new rules. We may also need to monitor wholesaling and other sales support activities so as not to be considered fiduciary advice, which would subject those activities to greater liability exposure.
- Asset Management: Distribution partners may have specific product and pricing needs, and may request tailoring product offerings or pricing to support compliance with a new standard. This business may also require monitoring of wholesaling and other sales support activities so that these activities would not be considered fiduciary advice, which

would subject those activities to greater liability exposure.

- Retirement: Asset allocation tools included in our product offerings, when mapped to specific investments, may fall within the definition of acting as a fiduciary and could need to be altered or discontinued in order to minimize potential liability. IRA offerings and asset retention and consolidation activities may need to comply with a new best interest contract exemption, referred to above. In addition, changes to the relationship with sponsors and intermediaries for small business plans (fewer than 100 lives) would be required to avoid assuming a fiduciary role and the associated potential liability.

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In addition to the DOL rulemaking described above, lawmakers and regulatory authorities from time to time enact legislative and regulatory changes that could decrease the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators, or have an unfavorable effect on our ability to earn revenues from these products and services. Over time, these changes could hinder our sales of retirement products and services. We cannot predict with any certainty the effect these legislative and regulatory changes may have on our business, results of operations, cash flows and financial condition. See "Business—Regulation—Investment and Retirement Products and Asset Management Operations" for further discussion of regulation of our businesses.

Foreign governmental actions could subject us to substantial additional regulation.

In addition to the adoption of Dodd-Frank in the United States, the FSB has issued a series of proposals intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated.

The FSB identified Prudential Financial as a G-SII. The framework policy measures for G-SIIs published by the IAIS include enhanced group-wide supervision, enhanced capital standards, enhanced liquidity planning and management, and development of a risk reduction plan and recovery and resolution plans. The IAIS has released a basic capital requirement ("BCR") and higher loss absorbency ("HLA") standard that have been approved by the FSB and G20 with implementation in 2019. The IAIS is also developing ComFrame for the supervision of Internationally Active Insurance Groups that seeks to promote effective and globally-consistent supervision of the insurance industry and contribute to global financial stability through uniform standards for insurer corporate governance, enterprise risk management and other control functions, group-wide supervision and group capital adequacy. ComFrame is also scheduled to be adopted by the IAIS in 2019. Policy measures applicable to G-SIIs would need to be implemented by legislation or regulation in each applicable jurisdiction. We cannot predict the impact of BCR, HLA or ComFrame on our business, or the outcome of our identification as a G-SII on the regulation of our businesses.

The lawmakers and regulatory authorities in a number of jurisdictions in which we do business have already begun enacting or considering legislative and regulatory changes consistent with G20 and FSB recommendations, including laws and proposals governing consolidated regulation of insurance holding companies set forth by the FSA in Japan. At this time, we cannot predict what additional capital requirements, compliance costs or other burdens continued international legislative and regulatory change will impose on us.

See "Business—Regulation—International and Global Regulatory Initiatives" and "—Regulation of our International Business for further discussion of the impact of foreign regulation on our business.

Adverse market, economic and financial conditions in Europe have given rise to a perceived risk of defaults on the government securities of certain European countries and potentially by financial institutions with significant direct or indirect exposure to such government securities. Further regulatory initiatives may develop in response to these conditions and related political and economic events such as possible changes in the euro or to the structure or membership of the European Monetary Union.

Changes in accounting requirements could negatively impact our reported results of operations and our reported financial position.

Accounting standards are continuously evolving and subject to change. For example, the FASB has an ongoing project to revise accounting standards for insurance contracts. While the final resolution of changes to U.S. GAAP pursuant to this project is unclear, changes to the manner in which we account for insurance products, or other changes in accounting standards, could have a material effect on our reported results of operations and financial condition. Further, changes in accounting standards may impose special demands on issuers in areas such as corporate

governance, internal controls and disclosure, and may result in substantial conversion costs to implement.

Changes in U.S. federal income tax law or in the income tax laws of other jurisdictions that impact our tax profile could make some of our products less attractive to consumers and also increase our tax costs.

There is uncertainty regarding U.S. taxes both for individuals and corporations. Discussions in Washington continue concerning the need to reform the tax code, primarily by lowering tax rates and broadening the base, including by reducing or eliminating certain tax expenditures. Broadening the tax base or reducing or eliminating certain tax expenditures could make our products less attractive to customers. It is unclear whether or when Congress may take up overall tax reform and what would be the impact of reform on the Company and its products.

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However, even in the absence of overall tax reform, given the large federal deficit, as well as the budget constraints faced by many states and localities, Congress and state and local governments could raise revenue by enacting legislation to increase the taxes paid by individuals and corporations. This can be accomplished either by raising rates or otherwise changing the tax rules that affect the Company and its products.

Congress from time to time considers legislation that could make our products less attractive to consumers. Current U.S. federal income tax laws generally permit certain holders to defer taxation on the build-up of value of annuities and life insurance products until payments are actually made to the policyholder or other beneficiary and to exclude from taxation the death benefit paid under a life insurance contract. While higher tax rates increase the benefits of tax deferral on the build-up of value of annuities and life insurance, making our products more attractive to consumers, legislation that reduces or eliminates deferral could have a negative effect on our products.

Congress, as well as state and local governments, also considers from time to time legislation that could increase the amount of corporate taxes we pay, thereby reducing earnings. For example, changes in the law relating to tax reserving methodologies for term life or universal life insurance policies with secondary guarantees or other products could result in higher current taxes.

The Obama Administration’s Revenue Proposals include proposals which, if enacted, would affect the taxation of life insurance companies and certain life insurance products. In particular, the proposals would affect the treatment of corporate-owned life insurance policies (“COLI”) by limiting the availability of certain interest deductions for companies that purchase those policies. The proposals would also change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts, that is eligible for the DRD. The DRD reduces the amount of dividend income subject to tax and is a major reason for the difference between our actual tax expense and the expected tax amount determined using the federal statutory tax rate of 35%. If proposals of this type were enacted, the Company’s sale of COLI, variable annuities, and variable life insurance products could be adversely affected and the Company’s actual tax expense could increase, thereby reducing earnings.

Furthermore, the Administration’s Fiscal Year 2017 Revenue Proposals also include items that would change the way U.S. multinational corporations are taxed, as well as a liability-based fee on financial services companies, including insurance companies, with consolidated assets in excess of $50 billion. If these types of provisions are enacted into law, they could increase the amount of taxes the Company pays.

The products we sell have different tax characteristics, in some cases generating tax deductions and credits for the Company. Changes in either the U.S. or foreign tax laws may negatively impact the deductions and credits available to the Company, including the ability of the Company to claim foreign tax credits with respect to taxes withheld on separate account products. These changes would increase the Company’s actual tax expense and reduce its consolidated net income.

The level of profitability of certain of our products is significantly dependent on these characteristics and our ability to continue to generate taxable income, which is taken into consideration when pricing products and is a component of our capital management strategies. Accordingly, changes in tax law, our ability to generate taxable income, or other factors impacting the availability or value of the tax characteristics generated by our products could impact product pricing and returns or require us to reduce our sales of these products or implement other actions that could be disruptive to our businesses. In addition, the adoption of a principles-based approach for statutory reserves may lead to significant changes to the way tax reserves are determined and thus reduce future tax deductions.

For a discussion of the impact of the tax laws outside the U.S., see “—Other Risks—We have substantial international operations and our international operations face political, legal, operational and other risks that could adversely affect

those operations or our profitability" below.

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Our ability to meet obligations, pay shareholder dividends, and to engage in share repurchases may be adversely affected by limitations imposed on dividends and other distributions from our subsidiaries.

Prudential Financial is the holding company for all our operations, and dividends, returns of capital and interest income from its subsidiaries are the principal source of funds available to Prudential Financial to pay shareholder dividends, to make share repurchases and to meet its other obligations. These sources of funds may be complemented by Prudential Financial's access, if available, to the capital markets and bank facilities. As described under "Business—Regulation" and Note 15 to the Consolidated Financial Statements, our domestic and foreign insurance and various other subsidiary companies, are subject to regulatory limitations on the payment of dividends and on other transfers of funds to Prudential Financial. In addition, our management of our subsidiaries to have capitalization consistent with their ratings objectives itself may constrain their payment of dividends. Finally, Dodd-Frank and emerging international capital and other prudential standards may ultimately result in additional restrictions on transfers of funds to Prudential Financial, or by Prudential Financial to its shareholders, either to satisfy enhanced prudential standards, due to inadequate stress-test performance, or otherwise. These restrictions may limit or prevent our subsidiaries from making dividend or other payments to Prudential Financial, or limit or prevent Prudential Financial from making payments to third-parties, in an amount sufficient to fund Prudential Financial's obligations, shareholder dividends and share repurchases. From time to time, the NAIC and various state and foreign insurance regulators have considered, and may in the future consider, proposals to further limit dividend payments that an insurance company may make without regulatory approval.

Legal and regulatory actions are inherent in our businesses and could adversely affect our results of operations or financial position or harm our businesses or reputation.

We are, and in the future may be, subject to legal and regulatory actions in the ordinary course of our businesses, including in businesses that we have divested or placed in wind-down status. Some of these actions relate to aspects of the Company's businesses and operations that are specific to us, while others are typical of the businesses in which we operate. We face or may face lawsuits alleging, among other things, issues relating to unclaimed property procedures, the settlement of death benefit claims, breaches of fiduciary duties, violations of securities laws and employment matters. 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.
In addition, many insurance regulatory and other governmental or self-regulatory bodies have the authority to review our products and business practices and those of our agents and employees and to bring regulatory or other legal actions against us if, in their view, our practices, or those of our agents or employees, are improper. These actions can result in substantial fines, penalties or prohibitions or restrictions on our business activities and could adversely affect our business, reputation, results of operations, financial condition or liquidity. Further, the financial services industry in general has faced increased regulatory scrutiny from governmental and self-regulatory bodies conducting inquiries and investigations into various products and business practices. This regulatory scrutiny has in some cases led to proposed or final legislation and regulation that could significantly affect the financial services industry, and may ultimately result in an increased risk of regulatory penalties, settlements and litigation.
Legal liability or adverse publicity in respect of current or future legal or regulatory actions, whether or not involving us, could have an adverse effect on us or cause us reputational harm, which in turn could harm our business prospects. As a participant in the insurance and financial services industries, we may continue to experience a high level of legal and regulatory actions related to our businesses and operations.
Material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, are discussed under "Commitments and Guarantees, Contingent Liabilities and Litigation and Regulatory Matters" in Note 23 to the Consolidated Financial Statements. Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. Our reserves for litigation and regulatory matters may prove to be inadequate. It is possible that our 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. 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.

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights with employees and third parties and on copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we endeavor to protect our rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability. This would represent a diversion of resources that may be significant and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have a material adverse effect on our business and our ability to compete.

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We may be subject to claims by third parties for (i) patent, trademark or copyright infringement; (ii) breach of copyright, trademark or license usage rights; or (iii) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third-parties or implement a costly work around. Any of these scenarios could have a material adverse effect on our business and results of operations.

Operational Risks

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, could harm our business.

We depend heavily on our telecommunication, information technology and other operational systems and on the integrity and timeliness of data we use to run our businesses and service our customers. These systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our control. Further, we face the risk of operational and technology failures by others, including clearing agents, exchanges and other financial intermediaries and of vendors and parties to which we outsource the provision of services or business operations. If these parties do not perform as anticipated, we may experience operational difficulties, increased costs and other adverse effects on our business. These risks are heightened by our offering of increasingly complex products, such as those that feature automatic rebalancing or re-allocation strategies, and by our employment of complex investment, trading and hedging programs.

Despite our implementation of a variety of security measures, our information technology and other systems could be subject to physical or electronic break-ins, unauthorized tampering or other security breaches, resulting in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to customers, or in the misappropriation of our intellectual property or proprietary information. Many financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, often through the introduction of computer viruses or malware, cyber attacks and other means.

Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because cyber attacks can originate from a wide variety of sources, including third-parties outside of Prudential such as persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments, as well as external service providers. Those parties may also attempt to fraudulently induce employees, customers or other users of Prudential’s systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. In addition, while we have certain standards for all vendors that provide us services, our vendors, and in turn, their own service providers, may become subject to a security breach, including as a result of their failure to perform in accordance with contractual arrangements.

Security breaches or other technological failures may also result in regulatory inquiries, regulatory proceedings, regulatory and litigation costs, and reputational damage. We may incur reimbursement and other expenses, including the costs of litigation and litigation settlements and additional compliance costs. We may also incur considerable expenses in enhancing and upgrading computer systems and systems security following such a failure.

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, whether due to actions by us or others, could delay or disrupt our ability to do business and service our customers, harm our reputation, result in a violation of applicable privacy and other laws, subject us to substantial regulatory sanctions and other claims, lead to a loss of customers and revenues or financial loss to our customers and otherwise adversely affect our business.

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We face risks arising from acquisitions, divestitures and restructurings, including client losses, surrenders and withdrawals, difficulties in executing, integrating and realizing the projected results of acquisitions and contingent liabilities with respect to dispositions.

We face a number of risks arising from acquisition transactions, including the risk that, following the acquisition or reorganization of a business, we could experience client losses, surrenders or withdrawals or other results materially different from those we anticipate. We may also experience difficulties in executing previously-announced transactions, and integrating and realizing the projected results of acquisitions and restructurings and managing the litigation and regulatory matters to which acquired entities are party. We have retained insurance or reinsurance obligations and other contingent liabilities in connection with our divestiture or winding down of various businesses, and our reserves for these obligations and liabilities may prove to be inadequate. These risks may adversely affect our results of operations or financial condition.

Other Risks

Our risk management policies and procedures may prove to be ineffective and leave us exposed to unidentified or unanticipated risk, which could adversely affect our businesses or result in losses.

We have developed an enterprise-wide risk management framework to mitigate risk and loss to the Company, and we maintain policies, procedures and controls intended to identify, measure, monitor, report and analyze the risks to which the Company is exposed.

There are, however, inherent limitations to risk management strategies because there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, the Company may suffer unexpected losses and could be materially adversely affected. As our businesses change and the markets in which we operate evolve, our risk management framework may not evolve at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. In times of market stress, unanticipated market movements or unanticipated claims experience resulting from adverse mortality or morbidity, the effectiveness of our risk management strategies may be limited, resulting in losses to the Company. In addition, under difficult or less liquid market conditions, our risk management strategies may not be effective because other market participants may be using the same or similar strategies to manage risk under the same challenging market conditions. In such circumstances, it may be difficult or more expensive for us to mitigate risk due to the activity of such other market participants.

Many of our risk management strategies or techniques are based upon historical customer and market behavior and all such strategies and techniques are based to some degree on management’s subjective judgment. We cannot provide assurance that our risk management framework, including the underlying assumptions or strategies, will be accurate and effective.

Management of operational, legal and regulatory risks requires, among other things, policies, procedures and controls to record properly and verify a large number of transactions and events, and these policies, procedures and controls may not be fully effective.

Models are utilized by our businesses and corporate areas primarily to project future cash flows associated with pricing products, calculating reserves and valuing assets, as well as in evaluating risk and determining capital requirements, among other uses. These models may not operate properly and may rely on assumptions and projections that are inherently uncertain. As our businesses continue to grow and evolve, the number and complexity of models we utilize expands, increasing our exposure to error in the design, implementation or use of models, including the

associated input data and assumptions.

Past or future misconduct by our employees or employees of our vendors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm and the precautions we take to prevent and detect this activity may not be effective in all cases. There can be no assurance that controls and procedures that we employ, which are designed to monitor associates' business decisions and prevent us from taking excessive or inappropriate risks, will be effective. We review our compensation policies and practices as part of our overall risk management program, but it is possible that our compensation policies and practices could inadvertently incentivize excessive or inappropriate risk taking. If our associates take excessive or inappropriate risks, those risks could harm our reputation and have a material adverse effect on our results of operations or financial condition.

In our investments in which we hold a minority interest, or that are managed by third parties, we lack management and operational control over operations, which may subject us to additional operational, compliance and legal risks and prevent us from taking or causing to be taken actions to protect or increase the value of those investments. In those jurisdictions where we are constrained by law from owning a majority interest in jointly owned operations, our remedies in the event of a breach by a joint venture partner may be limited (e.g., we may have no ability to exercise a "call" option).

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The occurrence of natural or man-made disasters could adversely affect our operations, results of operations and financial condition.

The occurrence of natural disasters, including hurricanes, floods, earthquakes, tsunamis, tornadoes, fires, explosions, pandemic disease and man-made disasters, including acts of terrorism and military actions, could adversely affect our operations, results of operations or financial condition, including in the following respects:

- Catastrophic loss of life due to natural or man-made disasters could cause us to pay benefits at higher levels and/or materially earlier than anticipated and could lead to unexpected changes in persistency rates.
- A man-made or natural disaster, such as an earthquake in Japan, could result in disruptions in our operations, losses in our investment portfolio or the failure of our counterparties to perform, or cause significant volatility in global financial markets.
- A terrorist attack affecting financial institutions in the U. S. or elsewhere could negatively impact the financial services industry in general and our business operations, investment portfolio and profitability in particular.
- Pandemic disease could have a severe adverse effect on Prudential Financial's business. The potential impact of such a pandemic on Prudential Financial's results of operations and financial position is highly speculative, and would depend on numerous factors, including: the effectiveness of vaccines and the rate of contagion; the regions of the world most affected; the effectiveness of treatment for the infected population; the rates of mortality and morbidity among various segments of the insured population; the collectability of reinsurance; the possible macroeconomic effects of a pandemic on our asset portfolio; the effect on lapses and surrenders of existing policies, as well as sales of new policies; and many other variables.

The above risks are more pronounced in respect of geographic areas, including major metropolitan centers, where we have concentrations of customers, including under group and individual life insurance, concentrations of employees or significant operations, and in respect of countries and regions in which we operate subject to a greater potential threat of military action or conflict.

There can be no assurance that our business continuation plans and insurance coverages would be effective in mitigating any negative effects on our operations or profitability in the event of a terrorist attack or other disaster.

Finally, climate change may increase the frequency and severity of weather related disasters. In addition, climate change regulation may affect the prospects of companies and other entities whose securities we hold and other counterparties, including reinsurers, and affect the value of investments, including real estate investments we hold or manage for others. We cannot predict the long-term impacts on us from climate change or related regulation.

We have substantial international operations and our international operations face political, legal, operational and other risks that could adversely affect those operations or our profitability.

A substantial portion of our revenues and income from continuing operations is derived from our operations outside the U.S., primarily Japan and Korea. Some of these operations are subject to restrictions on transferring funds out of the countries in which they are located. Some of our foreign insurance and investment management operations are, and are likely to continue to be, in emerging markets where this risk, as well as risks of discriminatory regulation, labor issues in connection with workers' associations and trade unions, price controls, currency exchange controls, nationalization or expropriation of assets, are heightened. If our business model is not successful in a particular country, we may lose all or most of our investment in building and training our sales force in that country.

Many of our insurance products sold in international markets, including Japan, provide for the buildup of cash values for the policyholder at contractually fixed guaranteed interest rates. Actual returns on the underlying investments may not necessarily support the guaranteed interest rates and there may be times when the spread between the actual

investment returns and these guaranteed rates of return to the policyholder is negative. This negative spread may not be offset by the mortality, morbidity and expense charges we earn on the products, and will likely be exacerbated in prolonged periods of low interest rates.

Our international businesses are subject to the tax laws and regulations of the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation that could increase the amount of taxes that we pay or impact the sales of our products. Such changes could negatively impact sales of our products or reduce our profits.

Our international operations are regulated in the jurisdictions in which they are located or operate. These regulations may apply heightened scrutiny to non-domestic companies, which can reduce our flexibility as to intercompany transactions, investments and other aspects of business operations and adversely affect our liquidity, profitability, and regulatory capital.

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Intense competition, including the impact of government sponsored programs and other actions on us and our competitors, could adversely affect our ability to maintain or increase our market share or profitability.

In each of our businesses we face intense competition from insurance companies, asset managers and diversified financial institutions, both for the ultimate customers for our products and, in many businesses, for distribution through non-affiliated distribution channels. We compete based on a number of factors including brand recognition, reputation, quality of service, quality of investment advice, investment performance of our products, product features, scope of distribution and distribution arrangements, price, perceived financial strength and credit and financial strength ratings. A decline in our competitive position as to one or more of these factors could adversely affect our profitability and assets under management.

Many of our competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher financial strength or credit ratings than we do. The proliferation and growth of non-affiliated distribution channels puts pressure on our captive sales channels to increase their productivity and reduce their costs in order to remain competitive, and we run the risk that the marketplace will make a more significant or rapid shift to non-affiliated or direct distribution alternatives than we anticipate or are able to achieve ourselves, potentially adversely affecting our market share and results of operations. In addition, technological advances or other changes in the marketplace may present opportunities for new or smaller competitors without established products or distribution channels to meet consumers' increased expectations more efficiently than us.

In certain international markets in which we operate, we face competition from government owned entities that benefit from pricing or other competitive advantages. The competitive landscape in which we operate may be further affected by government sponsored programs and longer term fiscal policies. Competitors that receive governmental financing or other assistance or subsidies, including governmental guarantees of their obligations, may have or obtain pricing or other competitive advantages. Competitors that are not subject to the same regulatory framework may also have a pricing advantage, including as a result of lower capital requirements.

Competition for personnel in all of our businesses is intense, including for executive officers and management personnel, agents within Prudential Advisors, Life Planners, Life Consultants and other sales personnel, and our investment managers. We devote significant efforts to talent management and development and are subject to the risk that executive, management and other personnel will be hired or recruited by competitors. Competition for desirable non-affiliated distribution channels is also intense. The loss of key personnel or non-affiliated distribution channels could have an adverse effect on our business and profitability.

At an enterprise level, Prudential Financial is one of three Designated Financial Companies in the insurance industry. This additional regulation has resulted in increased operational, compliance and risk management costs, and may result in further impacts if we are ultimately required to increase our capital levels or hold additional liquid assets relative to our competitors.

Regulatory requirements could delay, deter or prevent a takeover attempt that shareholders might consider in their best interests.

Insurance regulatory authorities in the various jurisdictions in which our insurance companies are domiciled, including New Jersey and Japan, must approve any change of control of Prudential Financial or the insurance companies organized under their laws. Federal and state banking laws also generally require regulatory approval for a change in control of Prudential Financial or PB&T. The U.S. federal securities laws could also require reapproval by customers of our investment advisory contracts to manage mutual funds, including mutual funds included in annuity products, upon a change in control. The New Jersey Business Corporation Act prohibits certain business combinations with

interested shareholders. Dodd-Frank concentration limits also impose restrictions on the acquisition of Designated Financial Companies where the resulting entity's total liabilities exceed 10% of total U.S. financial company liabilities, which may prohibit certain companies from acquiring Prudential Financial. In addition, the FRB must approve any acquisition by a Designated Financial Company of more than 5% of the voting stock of a company engaged in financial activities with $10 billion or more in assets, such as Prudential Financial. These regulatory and other restrictions may delay or prevent a potential merger or sale of Prudential Financial, even if the Board of Directors decides that it is in the best interests of shareholders to merge or be sold.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 1C. EXECUTIVE OFFICERS OF THE REGISTRANT

The names of the executive officers of Prudential Financial and their respective ages and positions, as of February 19, 2016, were as follows:

Name	Age	Title	Other Public Directorships
John R. Strangfeld, Jr.	62	Chairman, Chief Executive Officer and President	None
Mark B. Grier	63	Vice Chairman	None
Robert M. Falzon	56	Executive Vice President and Chief Financial Officer	None
Timothy P. Harris	55	Executive Vice President and General Counsel	None
Charles F. Lowrey	58	Executive Vice President and Chief Operating Officer, International Businesses	None
Stephen Pelletier	62	Executive Vice President and Chief Operating Officer, U.S. Businesses	None
Barbara G. Koster	61	Senior Vice President and Chief Information Officer	None
Richard F. Lambert	59	Senior Vice President and Chief Actuary	None
Nicholas C. Silitch	54	Senior Vice President and Chief Risk Officer	None
Scott G. Sleyster	56	Senior Vice President and Chief Investment Officer	None
Sharon C. Taylor	61	Senior Vice President, Human Resources	New Jersey Resources

Biographical information about Prudential Financial executive officers is as follows:

John R. Strangfeld, Jr. was elected Chairman of Prudential Financial in May 2008 and has served as Chief Executive Officer, President and Director since January 2008. He is a member of the Office of the Chairman and served as Vice Chairman of Prudential Financial from August 2002 to December 2007. He was Executive Vice President of Prudential Financial from February 2001 to August 2002. He served as Chief Executive Officer, Prudential Investment Management of Prudential Insurance from October 1998 until April 2002 and Chairman of the Board and CEO of Prudential Securities (renamed Prudential Equity Group, LLC) from December 2000 to April 2008. He has been with Prudential since July 1977, serving in various management positions, including Senior Managing Director, The Private Asset Management Group from 1995 to 1998; and Chairman, PRICOA Capital Group (London) Europe from 1989 to 1995.

Mark B. Grier was elected Director of Prudential Financial in January 2008 and has served as Vice Chairman since August 2002. He served as a director of Prudential Financial from December 1999 to January 2001, Executive Vice President from December 2000 to August 2002 and as Vice President of Prudential Financial from January 2000 to December 2000. He served as Chief Financial Officer of Prudential Insurance from May 1995 to June 1997. Since May 1995 he has variously served as Executive Vice President, Corporate Governance; Executive Vice President, Financial Management; Vice Chairman, Financial Management; and Vice Chairman, International. Prior to joining Prudential, Mr. Grier was an executive with Chase Manhattan Corporation.

Robert M. Falzon was elected Executive Vice President and Chief Financial Officer of Prudential Financial and Prudential Insurance in March 2013. Mr. Falzon has been with Prudential since 1983, serving in various positions. He served as Senior Vice President and Treasurer of Prudential Insurance and Prudential Financial from 2010 to 2013. Previously he had been a managing director at Prudential Real Estate Investors ("PREI"), head of PREI's Global Merchant Banking Group and CEO of its European business; a managing director at Prudential Securities; and regional vice president at Prudential Capital Group.

Timothy P. Harris was appointed Executive Vice President and General Counsel for Prudential Financial and Prudential Insurance in October 2015. He served as the Deputy General Counsel and Chief Legal Officer, U.S.

Businesses, from 2008 to 2015. He has served in various supervisory positions since 1999, including Chief Investment Counsel from 2005 through 2008, Chief Legal Officer of Prudential Annuities and Chief Legal Officer for Retirement Services and Prudential Asia. Mr. Harris was the Chief Risk Officer for Prudential Investments from 1999 to 2003. Prior to joining Prudential, he was associated with Cadwalader, Wickersham & Taft in New York, where he provided transactional and regulatory advice to investment banks, broker-dealers, banks and commodities firms.

Charles F. Lowrey was elected Executive Vice President and Chief Operating Officer, International Businesses, of Prudential Financial and Prudential Insurance in March 2014. He served as Executive Vice President and Chief Operating Officer, U.S. Businesses, of Prudential Financial and Prudential Insurance from February 2011 to March 2014. He also served as Chief Executive Officer and President of Prudential Investment Management, Inc. from January 2008 to February 2011; and as Chief Executive Officer of Prudential Real Estate Investors, our real estate investment management and advisory business from February 2002 to January 2008. He joined the Company in March 2001, after serving as a managing director and head of the Americas for J.P. Morgan’s Real Estate and Lodging Investment Banking group, where he began his investment banking career in 1988. He also spent four years as a managing partner of an architecture and development firm he founded in New York City.

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Stephen Pelletier was elected Executive Vice President and Chief Operating Officer, U.S. Businesses, of Prudential Financial and Prudential Insurance in March of 2014. He served as the Chief Executive Officer of Prudential Group Insurance from July of 2013 to March of 2014. Mr. Pelletier has been with Prudential since 1992, serving in various positions including President of Prudential Annuities and Chairman and CEO of Prudential International Investments.

Barbara G. Koster was elected Senior Vice President, Operations and Systems, of Prudential Financial in May 2011 and has been a Senior Vice President of Prudential Insurance Company of America since February 2004. Ms. Koster joined Prudential in November 1995 as the Vice President and Chief Information Officer of Individual Life Insurance Systems and was appointed as the Chief Information Officer of Prudential in 2004. Prior to joining Prudential, Ms. Koster held several positions with Chase Manhattan Bank, including that of President of Chase Access Services.

Richard F. Lambert was elected Senior Vice President and Chief Actuary of Prudential Financial and Prudential Insurance in May 2012. Mr. Lambert has been with Prudential since 1978, serving in various positions including Vice President and Actuary in Prudential's domestic individual life insurance business from 1996 to 2004 and Senior Vice President and Chief Actuary of Prudential's International Insurance division from 2004 to 2012.

Nicholas C. Silitch was elected Senior Vice President and Chief Risk Officer of Prudential Financial and Prudential Insurance in May 2012. He joined Prudential in 2010 as Chief Credit Officer and head of investment risk management. Prior to joining Prudential, Mr. Silitch held the position of Chief Risk Officer of the Alternative Investment Services, Broker Dealer Services and Pershing businesses within Bank of New York Mellon.

Scott G. Sleyster was elected Senior Vice President and Chief Investment Officer of Prudential Insurance and Prudential Financial in May 2012 and February 2013, respectively. Mr. Sleyster has been with Prudential since 1987, serving in a variety of positions, including head of Prudential's Full Service Retirement business, president of Prudential's Guaranteed Products business, chief financial officer for Prudential's Employee Benefits Division, and has held roles in Prudential's Treasury, Derivatives and Investment Management units.

Sharon C. Taylor was elected Senior Vice President, Human Resources for Prudential Financial in June 2002. She also serves as Senior Vice President, Human Resources for Prudential Insurance and the Chair of The Prudential Foundation. Ms. Taylor has been with Prudential since 1976, serving in various human resources and general management positions, including Vice President of Human Resources Communities of Practice, from 2000 to 2002; Vice President, Human Resources & Ethics Officer, Individual Financial Services, from 1998 to 2000; Vice President, Staffing and Employee Relations from 1996 to 1998; Management Internal Control Officer from 1994 to 1996; and Vice President, Human Resources and Administration from 1993 to 1994.

ITEM 2. PROPERTIES

We own our headquarters building located at 751 Broad Street, Newark, New Jersey, which comprises approximately 0.6 million square feet. Excluding our headquarters building and properties used by the International Insurance division and the international investment operations of our Asset Management segment, which are discussed below, as of December 31, 2015, we own eight and lease ten other principal properties throughout the U.S., some of which are used for home office functions. Our domestic operations also lease approximately 175 other locations throughout the U.S.

For our International Insurance segment, as of December 31, 2015, we own eight home offices located in Japan, Korea, Taiwan, Brazil, Argentina and Malaysia, and lease three home offices located in Italy, Mexico and Poland. We also own approximately 110 and lease approximately 540 other properties, primarily field offices, located throughout these same countries. For our Asset Management segment, which includes our international investment operations, as of December 31, 2015, we lease two home offices located in Japan and Taiwan. We also lease 14 international

principal properties located in Mexico, Japan, Hong Kong, Singapore, Korea, Germany, Australia, France, Portugal, Luxembourg and the United Kingdom, in addition to approximately ten other branch and field offices within Europe and Asia.

We believe our properties are adequate and suitable for our business as currently conducted and are adequately maintained. The above properties do not include properties we own for investment-only purposes.

ITEM 3. LEGAL PROCEEDINGS

See Note 23 to the Consolidated Financial Statements under "—Litigation and Regulatory Matters" for a description of material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General

Prudential Financial's Common Stock trades on the New York Stock Exchange under the symbol "PRU". The following table presents the high and low closing prices for the Common Stock on the New York Stock Exchange during the periods indicated and the dividends declared per share during such periods:

	High	Low	Dividends
2015:			
Fourth Quarter	$87.69	$75.40	$0.70
Third Quarter	$91.68	$74.22	$0.58
Second Quarter	$91.47	$79.13	$0.58
First Quarter	$90.11	$75.32	$0.58
2014:			
Fourth Quarter	$91.67	$77.86	$0.58
Third Quarter	$93.16	$85.75	$0.53
Second Quarter	$91.10	$77.61	$0.53
First Quarter	$91.23	$80.45	$0.53

On January 31, 2016, there were 1,395,525 registered holders of record for the Common Stock and 446 million shares outstanding.

Holders of Common Stock will be entitled to dividends if and when declared by Prudential Financial's Board of Directors out of funds legally available to pay those dividends. Prudential Financial's Board of Directors currently intends to continue to declare and pay dividends on the Common Stock. Future dividend decisions will be based on, and affected by, a number of factors including the financial performance of our businesses, our overall financial condition, results of operations, cash requirements and future prospects; regulatory restrictions including on the payment of dividends by Prudential Financial's subsidiaries and capital and liquidity requirements under Dodd-Frank; and such other factors as the Board of Directors may deem relevant. Dividends payable by Prudential Financial are limited to the amount that would be legally available for payment under New Jersey corporate law. For additional information on dividends and related regulatory restrictions, see Note 15 to the Consolidated Financial Statements.

For information about our exchangeable surplus notes, see Note 14 to the Consolidated Financial Statements.

Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company during the three months ended December 31, 2015 of its Common Stock.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Number of Shares Purchased as Part of	Approximate Dollar Value of Shares that

			Publicly Announced Programs(2)(3)	May Yet be Purchased under the Programs(2)(3)
October 1, 2015 through October 31, 2015	1,056,372	$ 79.04	1,054,269	
November 1, 2015 through November 30, 2015	16,660	$ 84.29	0	
December 1, 2015 through December 31, 2015	2,041,937	$ 81.68	2,040,520	
Total	3,114,969	$ 80.80	3,094,789	$ 1,500,000,000

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(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 that was adopted by the Company's Board of Directors in March 2003 (as subsequently amended and restated).

(2) In June 2015, the Board authorized the Company to repurchase up to $1.0 billion of its outstanding Common Stock during the twelve month period from July 1, 2015 through June 30, 2016.

(3) In December 2015, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to $1.5 billion of its outstanding Common Stock from January 1, 2016 through December 31, 2016. Effective January 1, 2016, this authorization superseded the Company's $1.0 billion share repurchase authorization that was announced in June 2015, covering the period from July 1, 2015 through June 30, 2016.

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated income statement data for the years ended December 31, 2015, 2014 and 2013, and the selected consolidated balance sheet data as of December 31, 2015 and 2014, from our Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 2012 and 2011, and the selected consolidated balance sheet data as of December 31, 2013, 2012 and 2011, from consolidated financial statements not included herein.

See Note 3 to the Consolidated Financial Statements for a discussion of acquisitions and dispositions during 2015, 2014 and 2013.

Results for the year ended December 31, 2012, included approximately $32 billion of premiums reflecting two significant pension risk transfer transactions. On November 1, 2012, we issued a non-participating group annuity contract to the General Motors Salaried Employees Pension Trust, and assumed responsibility for providing specified benefits to certain participants. On December 10, 2012, we issued a non-participating group annuity contract to the Verizon Management Pension Plan and assumed responsibility for providing specified benefits to certain participants. The premiums from these transactions were largely offset by a corresponding increase in policyholders' benefits, including the change in policy reserves.

On February 1, 2011, we acquired the Star and Edison Businesses from American International Group, Inc. The results of these companies are reported with the Gibraltar Life operations and are included in the results presented below from the date of acquisition. The Star and Edison companies were merged into Gibraltar Life on January 1, 2012.

Our Gibraltar Life operations use a November 30 fiscal year end. Consolidated balance sheet data as of December 31, 2015, 2014, 2013, 2012 and 2011, include Gibraltar Life assets and liabilities as of November 30 for each respective year. Consolidated income statement data for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, include Gibraltar Life results for the twelve months ended November 30 for each respective year.

This selected consolidated financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements included elsewhere herein.

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	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$28,521	$29,293	$26,237	$65,354	$24,301
Policy charges and fee income	5,972	6,179	5,415	4,489	3,924
Net investment income	14,829	15,256	14,729	13,661	13,124
Asset management and service fees	3,772	3,719	3,485	3,053	2,897
Other income	0	(1,978)	(3,199)	(269)	2,008
Realized investment gains (losses), net	4,025	1,636	(5,206)	(1,441)	2,831
Total revenues	57,119	54,105	41,461	84,847	49,085
Benefits and expenses:					
Policyholders' benefits	30,627	31,587	26,733	65,131	23,614
Interest credited to policyholders' account balances	3,479	4,263	3,111	4,234	4,484
Dividends to policyholders	2,212	2,716	2,050	2,176	2,723
Amortization of deferred policy acquisition costs	2,120	1,973	240	1,504	2,695
General and administrative expenses	10,912	11,807	11,011	11,094	10,605
Total benefits and expenses	49,350	52,346	43,145	84,139	44,121
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	7,769	1,759	(1,684)	708	4,964
Income tax expense (benefit)	2,072	349	(1,058)	213	1,515
Income (loss) from continuing operations before equity in earnings of operating joint ventures	5,697	1,410	(626)	495	3,449
Equity in earnings of operating joint ventures, net of taxes	15	16	59	60	182
Income (loss) from continuing operations	5,712	1,426	(567)	555	3,631
Income (loss) from discontinued operations, net of taxes	0	12	7	15	35
Net income (loss)	5,712	1,438	(560)	570	3,666
Less: Income (loss) attributable to noncontrolling interests	70	57	107	50	34
Net Income (loss) attributable to Prudential Financial, Inc.	$5,642	$1,381	$(667)	$520	$3,632
EARNINGS PER SHARE(1)					
Basic earnings per share—Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$12.37	$3.23	$(1.57)	$1.02	$7.14
Income (loss) from discontinued operations, net of taxes	0.00	0.02	0.02	0.04	0.07
Net income (loss) attributable to Prudential Financial, Inc.	$12.37	$3.25	$(1.55)	$1.06	$7.21
Diluted earnings per share—Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$12.17	$3.20	$(1.57)	$1.01	$7.05
Income (loss) from discontinued operations, net of taxes	0.00	0.03	0.02	0.04	0.07
Net income (loss) attributable to Prudential Financial, Inc.	$12.17	$3.23	$(1.55)	$1.05	$7.12
Dividends declared per share—Common Stock	$2.44	$2.17	$1.73	$1.60	$1.45
Ratio of earnings to fixed charges(2)	2.64	1.25	0.00	1.11	1.83

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	As of December 31,				
	2015	2014	2013	2012	2011
	(in millions)				
Balance Sheet Data:					
Total investments excluding policy loans	$405,535	$408,274	$386,407	$394,007	$344,688
Separate account assets	285,570	296,435	285,060	253,254	218,380
Total assets	757,388	766,655	731,781	709,235	620,114
Future policy benefits and policyholders' account balances	361,168	353,916	343,516	350,463	305,229
Separate account liabilities	285,570	296,435	285,060	253,254	218,380
Short-term debt	1,216	3,839	2,669	2,484	2,336
Long-term debt	19,727	19,831	23,553	24,729	24,622
Total liabilities	715,465	724,306	695,900	670,123	585,475
Prudential Financial, Inc. equity	41,890	41,770	35,278	38,503	34,130
Noncontrolling interests	33	579	603	609	509
Total equity	$41,923	$42,349	$35,881	$39,112	$34,639

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(1) For 2015, represents consolidated earnings per share of Common Stock. For 2014, 2013, 2012 and 2011, represents earnings of the Company's former Financial Services Businesses per share of Common Stock.

(2) For purposes of this computation, earnings are defined as income from continuing operations before income taxes excluding undistributed income (loss) from equity method investments, fixed charges and interest capitalized. Also excludes earnings attributable to noncontrolling interests. Fixed charges are the sum of gross interest expense, interest credited to policyholders' account balances and an estimated interest component of rent expense. Due to the Company's loss for the year ended December 31, 2013, the ratio coverage was less than 1:1 and is therefore not presented. Additional earnings of $1,935 million would have been required for the year ended December 31, 2013 to achieve a ratio of 1:1.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the Forward-Looking Statements included below the Table of Contents, "Risk Factors," "Selected Financial Data" and the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Overview

From December 18, 2001, the date of demutualization, through December 31, 2014, we organized our principal operations into the Financial Services Businesses and the Closed Block Business, and had two classes of common stock outstanding. The Common Stock, which is publicly-traded (NYSE:PRU), reflected the performance of the Financial Services Businesses, while the Class B Stock, which was issued through a private placement and did not trade on any exchange, reflected the performance of the Closed Block Business.

On January 2, 2015, Prudential Financial repurchased and canceled all of the shares of the Class B Stock (the "Class B Repurchase"). As a result, earnings per share of Common Stock for the year ended December 31, 2015 reflect the consolidated earnings of Prudential Financial. In addition, we no longer organize our principal operations into the Financial Services Businesses and the Closed Block Business. Our principal operations are comprised of four divisions, which together encompass seven segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of our Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of our Individual Life and Group Insurance segments. The International Insurance division consists of our International Insurance segment. The

Closed Block division consists of our Closed Block segment, which includes certain in force participating insurance and annuity products and corresponding assets that are used for the payment of benefits and policyholders' dividends on these products (the "Closed Block"), as well as certain related assets and liabilities. The Closed Block segment is accounted for as a divested business that is reported separately from the divested businesses that are included in Corporate and Other operations. 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. See Note 12 to the Consolidated Financial Statements for additional information on the Closed Block.

As a result of the Class B Repurchase and resulting elimination of the separation of the Financial Services Businesses and the Closed Block Business, in this MD&A we refer to the divisions and segments of the Company that formerly comprised the Financial Services Businesses as "PFI excluding the Closed Block division" and we refer to the operations that were formerly included in the Closed Block Business as the "Closed Block division," except as otherwise noted. Closed Block Business results were associated with the Company's Class B Stock for periods prior to January 1, 2015.

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Revenues and Expenses

We earn our revenues principally from insurance premiums; mortality, expense, asset management and administrative fees from insurance and investment products; and investment of general account and other funds. We earn premiums primarily from the sale of certain individual life insurance, group life and disability insurance, retirement and annuity contracts. We earn mortality, expense, and asset management fees primarily from the sale and servicing of separate account products including variable life insurance and variable annuities, and from the sale and servicing of other products including universal life insurance. We also earn asset management and administrative fees from the distribution, servicing and management of mutual funds, retirement products and other asset management products and services. Our operating expenses principally consist of insurance benefits provided and reserves established for anticipated future insurance benefits, general business expenses, dividends to policyholders, commissions and other costs of selling and servicing our products and interest credited on general account liabilities.

Profitability

Our profitability depends principally on our ability to price our insurance and annuity products at a level that enables us to earn a margin over the costs associated with providing benefits and administering those products. Profitability also depends on, among other items, our actuarial and policyholder behavior experience on insurance and annuity products and our ability to attract and retain customer assets, generate and maintain favorable investment results, effectively deploy capital and utilize our tax capacity, and manage expenses.

Historically, the participating products included in the Closed Block have yielded lower returns on capital invested than many of our other businesses. As we have ceased offering domestic participating products, we expect that the proportion of the traditional participating products in our in force business will gradually diminish as these older policies age, and we grow other businesses. However, the relatively lower returns to us on this existing block of business will continue to affect our consolidated results of operations for many years.

See "Risk Factors" for a discussion of risks that have affected and may affect in the future our business, results of operations or financial condition, or cause our actual results to differ materially from those expected or those expressed in any forward-looking statements made by or on behalf of the Company.

Executive Summary

Industry Trends

Our U.S. and international businesses are impacted by financial markets, economic conditions, regulatory oversight, and a variety of trends that affect the industries where we compete.

U.S. Businesses

Financial and Economic Environment. Global market conditions and uncertainty continue to be factors in the markets in which we operate. As discussed further under "Impact of a Low Interest Rate Environment" below, interest rates in the U.S. remain lower than historical levels, which continue to negatively impact our portfolio income yields and our net investment spread results.

Regulatory Environment. See "Business—Regulation" for a discussion of regulatory developments that may impact the Company, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the U.S. Department of Labor's proposed fiduciary rules. See "Risk Factors—Regulatory and Legal Risks" for a discussion of the risks associated with these and other developments.

Demographics. Income protection, wealth accumulation and the needs of retiring baby boomers continue to shape the insurance industry. Retirement security is one of the most critical issues in the U.S. for individuals and the investment professionals and institutions that support them. The risk and responsibility of retirement savings continues to shift to employees, away from the government and employers. Life insurance ownership among U.S. households remains low, with consumers citing other financial priorities and cost of insurance as reasons for the lack of coverage.

Competitive Environment. See "Business—Competition," "Business—U.S. Retirement Solutions and Investment Management Division" and "Business—U.S. Individual Life and Group Insurance Division" for a discussion of the competitive environment and the basis on which we compete.

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International Businesses

Financial and Economic Environment. Our international insurance operations, especially in Japan, continue to operate in a low interest rate environment. Although the local market in Japan has adapted to the low interest rate environment, as discussed under "Impact of a Low Interest Rate Environment" below, the current reinvestment yields for certain blocks of business in our international insurance operations are now generally lower than the current portfolio yield supporting these blocks of business, which may negatively impact our net investment spread results. The continued low interest rate environment in the U.S. may also impact the relative attractiveness of U.S. dollar-denominated products to yen-denominated products in Japan. In addition, we are subject to financial impacts associated with movements in foreign currency rates, particularly the Japanese yen. Fluctuations in the value of the yen will continue to impact the relative attractiveness of both yen-denominated and non-yen denominated products.

Regulatory Environment. See "Business—Regulation" and "Risk Factors—Regulatory and Legal Risks" for a discussion of regulatory developments that may impact the Company and associated risks.

Demographics. Japan has an aging population as well as a large pool of household assets invested in low-yielding deposit and savings vehicles. The aging of Japan's population, along with strains on government pension programs, have led to a growing demand for insurance products with a significant savings element to meet savings and retirement needs as the population prepares for retirement. We are seeing a similar shift to retirement-oriented products across Asian markets, including Korea and Taiwan, each of which also has an aging population.

Competitive Environment. See "Business—Competition," and "Business—International Insurance Division" for a discussion o the competitive environment and the basis on which we compete.

Impact of a Low Interest Rate Environment

U.S. Operations excluding the Closed Block Division

Interest rates in the U.S. continue to remain lower than historical levels, despite the Federal Reserve Board's decision to raise short-term interest rates in December 2015. Our current reinvestment yields continue to be lower than the overall portfolio yield, primarily for our investments in fixed maturity securities and commercial mortgage loans.

For the general account supporting our U.S. Retirement Solutions and Investment Management division, our U.S. Individual Life and Group Insurance division and our Corporate and Other operations, we expect annual scheduled payments and prepayments to be approximately 10% of the fixed maturity security and commercial mortgage loan portfolios through 2017. The general account for these operations has approximately $168 billion of such assets (based on net carrying value) as of December 31, 2015. As these assets mature, the current average portfolio yield for fixed maturities and commercial mortgage loans of approximately 4.5%, as of December 31, 2015, is expected to decline due to reinvesting in a lower interest rate environment. Included in the $168 billion of fixed maturity securities and commercial mortgage loans are approximately $83 billion that are subject to call or redemption features at the issuer's option and have a weighted average interest rate of approximately 5%.

As of December 31, 2015, approximately 75% of these assets contain provisions for prepayment premiums. The reinvestment of scheduled payments and prepayments at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, will impact future operating results 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.

As of December 31, 2015, these operations have approximately $171 billion of insurance liabilities and policyholder account balances. Of this amount, approximately $52 billion represents 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 December 31, 2015, and the respective guaranteed minimums.

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	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%	$0.7	$0.5	$0.4	$0.0	$0.0	$1.6
1.00% - 1.99%	1.5	9.0	5.8	0.9	0.1	17.3
2.00% - 2.99%	2.3	0.2	1.8	0.6	0.3	5.2
3.00% - 4.00%	26.2	0.8	0.2	0.2	0.0	27.4
Greater than 4.00%	0.8	0.0	0.0	0.0	0.0	0.8
Total	$31.5	$10.5	$8.2	$1.7	$0.4	$52.3
Percentage of total	60 %	20 %	16 %	3 %	1 %	100 %

Also included in the table above is approximately $1.4 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity.

These operations also have approximately $15 billion of insurance liabilities and policyholder account balances representing 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 yield earned on the related assets. The remaining $104 billion of the $171 billion of insurance liabilities and policyholder account balances in these operations represents 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.

Assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 2.25% for the period from January 1, 2016 through December 31, 2017, and credit spreads remain unchanged from levels as of December 31, 2015, we estimate that the unfavorable impact to net interest margins included in pre-tax adjusted operating income of reinvesting in such an environment, compared to reinvesting at current average portfolio yields, would be approximately $20 million in 2016 and $55 million in 2017. This impact is most significant in the Retirement, Individual Life and Individual Annuities segments. This hypothetical scenario only reflects the impact related to the approximately $52 billion of contracts shown in the table above, and does not reflect: i) any benefit from potential changes to the crediting rates on the corresponding contractholder liabilities where the Company has the contractual ability to do so, or other potential mitigants such as changes in investment mix that we may implement as funds are reinvested; ii) any impact related to assets that do not directly support our liabilities; iii) any impact from other factors, including but not limited to, new business, contractholder behavior, changes in competitive conditions, and changes in capital markets; or iv) any impact from other factors described below.

In order to mitigate the unfavorable impact that the current interest rate environment has on our net interest margins, we employ a proactive asset/liability management program, which includes strategic asset allocation and derivative 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 $60 billion of general account assets in the Closed Block division support obligations and liabilities relating to the Closed Block policies only. See Note 12 to the Consolidated Financial Statements for further information on the Closed Block.

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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 largest insurance operations are generally lower than the current portfolio yield supporting these blocks of business. For example, if interest rates on investments supporting our Japanese operations, including those sold in currencies other than Japanese yen, remain below the current yield on investments supporting these blocks of business, reinvestment at such rates will negatively impact future operating results. As of December 31, 2015, our Japanese operations have $121 billion of insurance liabilities and policyholder account balances. Included in the $121 billion is approximately $21 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity, and $8 billion of insurance liabilities and policyholder account balances with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. However, for these contracts, most of the current crediting rates are at or near contractual minimums. Although we have the ability to lower crediting rates in some cases for those contracts that are above guaranteed minimum crediting rates, the majority of this business has interest crediting rates that are determined by formula. The remaining $92 billion of insurance liabilities and policyholder account balances are predominantly 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 portfolio rates. 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. This asset/liability management program includes strategies similar to those described above for U.S. insurance operations excluding the Closed Block division.

Outlook

Management expects that results in 2016 will continue to reflect the quality of our individual businesses and their prospects, as well as our overall business mix and effective capital management. We also expect our results to continue to reflect the impacts of product diversification strategies we have implemented over the last few years, particularly in our Individual Annuities and Individual Life businesses, and to include seasonally-higher expenses in the fourth quarter and seasonally-lower international insurance income in the second half of the year. Our strategic initiatives will continue to focus on growth opportunities, enhanced capital and risk management, and further developing our digital, data and infrastructure capabilities and cross-business synergies. In addition, initiatives for each of our divisions include the following:

- U.S. Retirement and Investment Management Market. We will continue to seek to capitalize on the growing need of baby boomers for products that provide guaranteed income for longer retirement periods, and to focus on our clients' increasing needs for retirement income security. We will also seek to provide products that respond to the needs of plan sponsors to manage risk and control their benefit costs, while ensuring we maintain appropriate pricing and return expectations under changing market conditions. In addition, in 2016, we expect to recapture the risks related to our variable annuity living benefit riders that were previously reinsured to a captive reinsurance company, and begin managing all of the product risks associated with our variable annuities in our statutory insurance entities. We expect this recapture to reduce the capital volatility associated with our Individual Annuities business.

- U.S. Insurance Market. We will continue to focus on writing high-quality business and expect to continue to benefit from expansion of our distribution channels and deepening our relationships with third-party distributors. In our Individual Life business, we expect to continue to work with regulators on long-term solutions to finance new statutory reserve requirements for our term and universal life policies. We will also seek to capitalize on opportunities for additional voluntary life purchases in the group insurance market, as institutional clients are focused on controlling their benefit costs.

- International Markets. We will continue to concentrate on deepening our presence in the markets in which we currently operate, such as Japan, and expanding our distribution capabilities in emerging markets. We will also seek to capitalize on opportunities arising in international markets as changing demographics and public policy continue to contribute to a growing demand for retirement income products. In particular, in 2016, we expect to close on our acquisition of an indirect ownership interest in Administradora de Fondos de Pensiones Habitat S.A. ("AFP Habitat"), a leading provider of retirement services in Chile. We also plan to create a presence in Africa by investing in a private equity fund that will primarily invest in African life insurers over the next three to five years.

Results of Operations

Net income attributable to Prudential Financial, Inc. for the year ended December 31, 2015 was $5,642 million compared to $1,381 million for the year ended December 31, 2014 and a net loss of $(667) million for the year ended December 31, 2013.

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We analyze performance of our segments and Corporate and Other operations using a measure called adjusted operating income. As discussed in "—Overview," for the year ended December 31, 2015, the Closed Block division is accounted for as a divested business under our definition of adjusted operating income. For the years ended December 31, 2014 and 2013, the former Closed Block Business was analyzed using accounting principles generally accepted in the United States of America ("U.S. GAAP"). Under both the current reporting for the Closed Block division and the former reporting for the Closed Block Business, its results are excluded from adjusted operating income. See "—Consolidated Results of Operations—Segment Measures" for a discussion of adjusted operating income and its use as a measure of segment operating performance.

Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the periods indicated and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures.

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Adjusted operating income before income taxes:			
Individual Annuities	$1,797	$1,467	$2,085
Retirement	931	1,215	1,039
Asset Management	779	785	723
Total U.S. Retirement Solutions and Investment Management division	3,507	3,467	3,847
Individual Life	635	498	583
Group Insurance	176	23	157
Total U.S. Individual Life and Group Insurance division	811	521	740
International Insurance	3,226	3,252	3,152
Total International Insurance division	3,226	3,252	3,152
Corporate and Other operations	(1,313)	(1,348)	(1,370)
Total Corporate and Other	(1,313)	(1,348)	(1,370)
Adjusted operating income before income taxes	6,231	5,892	6,369
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments(1)	2,258	(3,588)	(9,956)
Charges related to realized investment gains (losses), net(2)	(679)	(542)	1,807
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	(524)	339	(250)
Change in experience-rated contractholder liabilities due to asset value changes(4)	433	(294)	227
Divested businesses:			
Closed Block division(5)	58	0	0
Other divested businesses(6)	(66)	167	29
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(7)	58	44	28
Subtotal(8)	7,769	2,018	(1,746)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business(9)	0	(259)	62
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$7,769	$1,759	$(1,684)

(1)

Represents "Realized investment gains (losses), net," and related adjustments. See "—Realized Investment Gains (Losses)" and Note 22 to our Consolidated Financial Statements for additional information.

(2) Includes charges that represent the impact of realized investment gains (losses), net, on the amortization of deferred policy acquisition costs 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 net investment gains (losses) on trading account assets supporting insurance liabilities. See "—Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments."

(4) 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, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments."

(5) As a result of the Class B Repurchase, for the year ended December 31, 2015, the Closed Block, along with certain related assets and liabilities, comprises the Closed Block division, which is accounted for as a divested business that is reported separately from the divested businesses that are included in Corporate and Other operations.

(6) See "—Divested Businesses."

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(7) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before taxes and equity earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our 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.

(8) Amounts for the years ended December 31, 2014 and 2013 represent "Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures" of the Company's former Financial Services Businesses, reflecting the existence of two classes of common stock and the separate reporting of the Financial Services Businesses and the Closed Block Business for each period.

(9) Reflects the existence of two classes of common stock and the separate reporting of the Company's former Financial Services Businesses and the Closed Block Business for the years ended December 31, 2014 and 2013.

Results for 2015 presented above reflect the following:

Individual Annuities. Segment results for 2015 increased in comparison to 2014, primarily reflecting a favorable comparative impact from changes in the estimated profitability of the business, higher net asset-based fee income and lower interest expense, partially offset by costs for contract cancellations.

Retirement. Segment results for 2015 decreased in comparison to 2014, reflecting lower net investment spread results, higher general and administrative expenses, net of capitalization, and lower fee income, partially offset by more favorable reserve impacts.

Asset Management. Segment results for 2015 decreased in comparison to 2014, primarily reflecting higher asset management fees from growth in assets under management, which were more than offset by higher expenses, and a lower contribution from other related revenues, net of expenses.

Individual Life. Segment results for 2015 increased in comparison to 2014, primarily reflecting favorable comparative impacts from our annual reviews and updates of assumptions and lower integration costs. Excluding these impacts, results for 2015 decreased from the prior year, reflecting less favorable mortality experience inclusive of associated reserve updates and amortization, net of reinsurance, and a lower contribution from investment results, partially offset by growth of our universal and term life businesses.

Group Insurance. Segment results for 2015 increased in comparison to 2014, primarily reflecting favorable comparative impacts from our annual reviews and updates of assumptions. Excluding these items, results increased from 2014 reflecting more favorable comparative underwriting results and lower expenses, partially offset by a lower contribution from net investment spread results.

International Insurance. Segment results for 2015 decreased in comparison to 2014, primarily from net unfavorable impacts from foreign currency exchange rates and from our annual reviews and updates of assumptions. Excluding these items, segment results increased from the prior year, reflecting net business growth driven by higher sales, a greater contribution from net investment spread results and the absence of certain reserve refinements that occurred in 2014. Partially offsetting these impacts were higher expenses and lower income from non-coupon investments.

Corporate and Other operations. The results for 2015 in comparison to 2014 reflected decreased losses driven by lower operating debt interest expense, net of higher investment income from the transfer of assets related to the

restructuring of the former Closed Block Business, partially offset by higher capital debt interest expense, lower pension and employee benefits income and higher levels of corporate expenses.

Closed Block division. Closed Block division results for 2015 increased in comparison to Closed Block Business results for 2014 primarily driven by the absence of costs associated with the early redemption in 2014 of senior secured notes, which we referred to as the IHC Debt. Excluding this impact, results decreased, reflecting a decrease in net realized investment gains, net investment income and net insurance results, partially offset by lower interest expense and a decrease in the policyholder dividend obligation.

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Consolidated Results of Operations

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

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Revenues	$57,119	$54,105	$41,461
Benefits and expenses	49,350	52,346	43,145
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	7,769	1,759	(1,684)
Income tax expense (benefit)	2,072	349	(1,058)
Income (loss) from continuing operations before equity in earnings of operating joint ventures	5,697	1,410	(626)
Equity in earnings of operating joint ventures, net of taxes	15	16	59
Income (loss) from continuing operations	5,712	1,426	(567)
Income (loss) from discontinued operations, net of taxes	0	12	7
Net income (loss)	5,712	1,438	(560)
Less: Income attributable to noncontrolling interests	70	57	107
Net income (loss) attributable to Prudential Financial, Inc.	$5,642	$1,381	$(667)

Results of Operations

2015 to 2014 Annual Comparison. The increase in "Income (loss) from continuing operations" reflected the following:

- $3,136 million higher net pre-tax earnings primarily resulting from the 2014 impact of foreign currency exchange rate movements on certain assets and liabilities within our Japanese insurance operations (see "—Results of Operations by Segment—International Insurance Division—Impact of foreign currency exchange rate movements on earnings—U.S. GAAP earnings impact of products denominated in non-local currencies" for additional information);
- $3,041 million favorable variance, on a pre-tax basis, reflecting our decision to manage a portion of our interest rate risk through our Capital Protection Framework (see "—Results of Operations by Segment—Corporate and Other—Capital Protection Framework" for additional information);
- $615 million favorable 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 Segments—U.S. Retirement Solutions and Investment Management Division—Individual Annuities—Variable Annuity Hedging Program Results" for additional information); and
- $558 million favorable variance, on a pre-tax basis, from adjustments to DAC and other costs as well as reserves, reflecting updates to the estimated profitability of our businesses, including the impact of our annual review and update of assumptions and other refinements performed in the second quarter of 2015 and the third quarter of 2014. This excludes the impact associated with the variable annuity hedging program discussed above (see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities" for additional information).

Partially offsetting these increases in "Income (loss) from continuing operations" were the following items:

- $1,723 million unfavorable impact of higher tax expense reflecting higher pre-tax income in 2015 compared to 2014; and
-

$1,436 million lower net pre-tax realized gains (losses) for PFI excluding the Closed Block division, and also excluding the impact of the hedging program associated with certain variable annuities discussed above, primarily reflecting changes in the market value of derivatives (see "—Realized Investment Gains (Losses)" for additional information).

2014 to 2013 Annual Comparison. The increase in "Income (loss) from continuing operations" reflected the following:

- $5,443 million higher net pre-tax realized gains (losses) for the former Financial Services Businesses, excluding the impact of the hedging program associated with certain variable annuities discussed below, primarily reflecting changes in the market value of derivatives;

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- $4,313 million favorable 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; and
- $889 million higher net pre-tax earnings primarily resulting from the impact of foreign currency exchange rate movements on certain assets and liabilities within our Japanese insurance operations.

Partially offsetting these increases in "Income (loss) from continuing operations" were the following items:

- $5,765 million unfavorable variance, on a pre-tax basis, reflecting our decision to manage a portion of our interest rate risk through our Capital Protection Framework;
- $1,529 million unfavorable impact reflecting tax expense in 2014 compared to a tax benefit in 2013, largely driven by pre-tax income in 2014 compared to a loss in 2013; and
- $1,047 million unfavorable variance, on a pre-tax basis, from adjustments to DAC and other costs as well as reserves, reflecting updates to the estimated profitability of our businesses. This excludes the impact associated with the variable annuity hedging program discussed above.

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) from continuing operations before income taxes and equity in earnings of operating joint ventures" or "Net income (loss)" as determined in accordance with accounting principles generally accepted in the United States of America ("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. As discussed in "—Executive Summary—Results of Operations" above, under both the current reporting for the Closed Block division and the former reporting for the Closed Block Business, its results are excluded from adjusted operating income.

See Note 22 to the 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 certain of our 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 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 Asset Management business, we analyze assets under management, which do not correspond to U.S. GAAP assets, because the principal source of revenues is fees based on assets under

management. Assets under management represents 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 Annuity and Retirement businesses, we analyze account values, which do not correspond to U.S. GAAP assets. Net sales (redemptions) in our Individual Annuity 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.

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, on an ongoing basis, reviews estimates and assumptions used in the preparation of financial statements. 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 Consolidated Financial Statements could change significantly.

The following sections discuss the accounting policies applied in preparing our financial statements that management believes are most dependent on the application of estimates and assumptions and require management's most difficult, subjective, or complex judgments.

Deferred Policy Acquisition and Other Costs

We capitalize costs that are directly related to the acquisition or renewal of insurance and annuity contracts. These costs primarily include commissions, as well as costs of policy issuance and underwriting and certain other expenses that are directly related to successfully negotiated contracts. We have also deferred costs associated with sales inducements related to our variable and fixed annuity contracts primarily within our Individual Annuities segment. Sales inducements are amounts that are credited to the policyholder's account balance as an inducement to purchase the contract. For additional information about sales inducements, see Note 11 to the Consolidated Financial Statements. We generally amortize these deferred policy acquisition costs ("DAC") and deferred sales inducements ("DSI") over the expected lives of the contracts, based on our estimates of the level and timing of gross margins, gross profits, or gross premiums, depending on the type of contract. As described in more detail below, in calculating DAC and DSI amortization, we are required to make assumptions about investment returns, mortality, persistency, and other items that impact our estimates of the level and timing of gross margins, gross profits, or gross premiums. We also periodically evaluate the recoverability of our DAC and DSI. For certain contracts, this evaluation is performed as part of our premium deficiency testing, as discussed further below in "—Policyholder Liabilities." As of December 31, 2015, DAC and DSI for PFI excluding the Closed Block division were $16.3 billion and $1.2 billion, respectively, and DAC in our Closed Block division was $373 million.

Amortization methodologies

DAC associated with the non-participating whole life and term life policies of our Individual Life segment and the whole life, term life, endowment and health policies of our International Insurance segment is amortized in proportion to gross premiums.

DAC and DSI 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 life 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. In calculating gross profits, we consider mortality, persistency, and other elements as well as rates of return on investments associated with these contracts and the costs related to our guaranteed minimum death and guaranteed minimum income benefits. For variable annuities in our Individual Annuities segment, U.S. GAAP gross profits and amortization rates also include the impacts of the embedded derivatives associated with certain of the living benefit features of our variable annuity contracts and related hedging activities. In calculating amortization expense, we estimate the amounts of gross profits that will be included in our U.S. GAAP results and in adjusted operating income, and utilize these estimates to calculate distinct amortization rates and expense amounts. We also regularly evaluate

and adjust the related DAC and DSI balances with a corresponding charge or credit to current period earnings for the impact of actual gross profits and changes in our projections of estimated future gross profits on our DAC and DSI amortization rates. Adjustments to the DAC and DSI balances include the impact to our estimate of total gross profits of the annual review of assumptions, our quarterly adjustments for current period experience, and our quarterly adjustments for market performance. Each of these adjustments is further discussed below in "—Annual assumptions review and quarterly adjustments." For additional information on our internally-defined hedge target, see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities—Variable Annuity Hedging Program Results."

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DAC associated with the traditional participating products of our Closed Block is amortized over the expected lives of those contracts in proportion to estimated gross margins. Gross margins consider premiums, investment returns, benefit claims, costs for policy administration, changes in reserves, and dividends to policyholders. We evaluate our estimates of future gross margins and adjust the related DAC balance with a corresponding charge or credit to current period earnings for the effects of actual gross margins and changes in our expected future gross margins. DAC adjustments for these participating products generally have not created significant volatility in our results of operations since many of the factors that affect gross margins are also included in the determination of our dividends to these policyholders and, during most years, the Closed Block has recognized a cumulative policyholder dividend obligation expense in "Policyholders' dividends," for the excess of actual cumulative earnings over expected cumulative earnings as determined at the time of demutualization. However, if actual cumulative earnings fall below expected cumulative earnings in future periods, thereby eliminating the cumulative policyholder dividend obligation expense, changes in gross margins and DAC amortization would result in a net impact to the Closed Block results of operations. As of December 31, 2015, the excess of actual cumulative earnings over the expected cumulative earnings was $1,694 million.

The amortization methodologies for products not discussed above primarily relate to less significant DAC balances associated with products in our Group Insurance and Retirement segments, which comprised approximately 2% of the Company's total DAC balance as of December 31, 2015.

Annual assumptions review and quarterly adjustments

Annually, we perform a comprehensive review of the assumptions used in estimating gross profits for future periods. Over the last several years, the Company's most significant assumption updates resulting in a change to expected future gross profits and the amortization of DAC and DSI have been related to lapse experience and other contractholder behavior assumptions, mortality, and revisions to expected future rates of returns on investments. These assumptions may also cause potential significant variability in amortization expense in the future. The impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time.

The quarterly adjustments for current period experience referred to above reflect the impact of differences between actual gross profits for a given period and the previously estimated expected gross profits for that period. To the extent each period's actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change. In these cases, we recognize a cumulative adjustment to all previous periods' amortization, also referred to as an experience true-up adjustment.

The quarterly adjustments for market performance referred to above 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.

The near-term future equity rate of return assumption used in evaluating DAC and other costs for our domestic variable annuity and variable life insurance products 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%, we use our maximum future rate of return. As of December 31, 2015, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 6.0% near-term mean reversion equity rate of return.

The weighted average rate of return assumptions consider many factors specific to each business, including asset durations, asset allocations and other factors. We generally update the near-term equity rates of return and our estimate of total gross profits each quarter to reflect the result of the reversion to the mean approach. We generally update the future interest rates used to project fixed income returns annually and in any quarter when interest rates vary significantly from these assumptions. These market performance related adjustments to our estimate of total gross profits result in cumulative adjustments to prior amortization, reflecting the application of the new required rate of amortization to all prior periods' gross profits.

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DAC and DSI Sensitivities

Variability in the level of amortization expense has historically been driven by the variable annuities and variable and universal life insurance policies in our Individual Life and Individual Annuities segments, for which costs are amortized in proportion to total gross profits. For our International Insurance segment, these products have historically experienced less significant variability due to a less material block of variable annuities and variable and universal life insurance policies.

For the variable and universal life policies of our Individual Life segment, a significant portion of our gross profits is derived from mortality margins. As a result, our estimates of future gross profits are significantly influenced by our mortality assumptions. Our mortality assumptions are used to estimate future death claims over the life of these policies and may be developed based on Company experience, industry experience and/or other factors. Unless a material change in mortality experience that we feel is indicative of a long-term trend is observed in an interim period, we generally update our mortality assumptions annually. Updates to our mortality assumptions in future periods could have a significant adverse or favorable effect on the results of our operations in the Individual Life segment.

The DAC balance associated with the variable and universal life policies of our Individual Life segment as of December 31, 2015 was $3.0 billion. The following table provides a demonstration of the sensitivity of that DAC balance relative to our future mortality assumptions by quantifying the adjustments that would be required, assuming both an increase and decrease in our future mortality rate by 1%. The information below is for illustrative purposes only and considers only the direct effect of changes in our mortality assumptions on the DAC balance, with no changes in any other assumptions such as persistency, future rate of return, or expenses included in our evaluation of DAC. Further, this information does not reflect changes in the unearned revenue reserve, which would partially offset the adjustments to the DAC balance reflected below. These reserves are discussed in more detail below in "—Policyholder Liabilities."

	December 31, 2015		
	Increase/(Decrease) in DAC		
	(in millions)		
Decrease in future mortality by 1%	$	38	
Increase in future mortality by 1%	$	(38	)

In addition to the impact of mortality experience relative to our assumptions, other factors may also drive variability in amortization expense, particularly when our annual assumption updates are performed. As noted above, however, the impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time. In 2015, updates to mortality assumptions drove the most significant changes to amortization expense. For a discussion of DAC adjustments related to our Individual Life segment for the years ended December 31, 2015, 2014 and 2013, see "—Results of Operations by Segment—U.S. Individual Life and Group Insurance Division—Individual Life."

For the variable annuity contracts of our Individual Annuities segment, DAC and DSI are more sensitive to changes in our future rate of return assumptions due primarily to the significant portion of our gross profits that is dependent upon the total rate of return on assets held in separate account investment options. The DAC and DSI balances associated with our domestic variable annuity contracts were $4.9 billion and $1.2 billion, respectively, as of December 31, 2015. The following table provides a demonstration of the sensitivity of each of these balances relative to our future rate of return assumptions by quantifying the adjustments to each balance that would be required assuming both an increase and decrease in our future rate of return by 100 bps. The information below is for illustrative purposes only and considers only the direct effect of changes in our future rate of return on the DAC and DSI balances and not changes in any other assumptions such as persistency, mortality, or expenses included in our

evaluation of DAC and DSI. Further, this information does not reflect changes in reserves, such as the reserves for the guaranteed minimum death and optional living benefit features of our variable annuity products, or the impact that changes in such reserves may have on the DAC and DSI balances.

	December 31, 2015	
	Increase/ (Decrease) in DAC	Increase/ (Decrease) in DSI
	(in millions)	
Decrease in future rate of return by 100 bps	$(196)	$(76)
Increase in future rate of return by 100 bps	$169	$70

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In addition to the impact of market performance relative to our future rate of return assumptions, other factors may also drive variability in amortization expense, particularly when our annual assumption updates are performed. As noted above, however, the impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time. In 2015, updates to projected interest rate assumptions and mapping of funds to related indices drove the most significant changes to amortization expense. For a discussion of DAC and DSI adjustments related to our Individual Annuities segment for the years ended December 31, 2015, 2014 and 2013, see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities."

Value of Business Acquired

In addition to DAC and DSI, we also recognize an asset for value of business acquired ("VOBA"). VOBA is an intangible asset which represents an adjustment to the stated value of acquired inforce insurance contract liabilities to present them at fair value, determined as of the acquisition date. VOBA is amortized over the expected life of the acquired contracts in proportion to either gross premiums or estimated gross profits, depending on the type of contract. VOBA is also subject to recoverability testing. As of December 31, 2015, VOBA was $2.8 billion, and included $1.3 billion related to the acquisition from AIG of the Star and Edison Businesses on February 1, 2011, and $1.3 billion related to the acquisition of The Hartford Financial Services Group's individual life insurance business ("the Hartford Life Business") on January 2, 2013. See Note 3 to the Consolidated Financial Statements for additional information on these acquisitions. The remaining $0.2 billion primarily relates to previously-acquired traditional life, deferred annuity, defined contribution and defined benefit businesses.

The VOBA associated with the Hartford Life Business is primarily amortized over the expected life of the acquired contracts in proportion to estimates of gross profits. A significant portion of our gross profits is derived from mortality margins. As a result, our estimates of future gross profits are significantly influenced by our mortality assumptions. Our mortality assumptions are used to estimate future death claims over the life of these policies and may be developed based on Company experience, industry experience and/or other factors. Unless a material change in mortality experience that we feel is indicative of a long-term trend is observed in an interim period, we generally update our mortality assumptions annually. Updates to our mortality assumptions in future periods could have a significant adverse or favorable effect on the results of our operations in the Individual Life segment. The following table provides a demonstration of the sensitivity of that VOBA balance relative to our future mortality assumptions by quantifying the adjustments that would be required, assuming both an increase and decrease in our future mortality rate by 1%. The information below is for illustrative purposes only and considers only the direct effect of changes in our mortality assumptions on the VOBA balance, with no changes in any other assumptions such as persistency, future rate of return, or expenses included in our evaluation of VOBA, and does not reflect changes in reserves.

	December 31, 2015 Increase/(Decrease) in VOBA (in millions)
Decrease in future mortality by 1%	$ 9
Increase in future mortality by 1%	$ (10)

In addition to the impact of mortality experience relative to our assumptions, other factors may also drive variability in amortization expense, particularly when our annual assumption updates are performed. As noted above, however, the impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time. In 2015, updates to investment-related assumptions drove the most significant changes to amortization expense. For a discussion of the drivers of results related to our Individual Life segment for the years ended December 31, 2015, 2014 and 2013, see "—Results of Operations by Segment—U.S. Individual Life and Group Insurance Division—Individual Life."

The VOBA associated with the inforce contracts acquired from AIG of the Star and Edison Businesses is less sensitive to assumption changes, as the majority is amortized in proportion to premiums rather than gross profits. For additional information about VOBA including details on items included in our estimates of future cash flows for the various acquired businesses and its bases for amortization, see Note 2 and Note 8 to the Consolidated Financial Statements.

Goodwill

As of December 31, 2015, our goodwill balance of $824 million is reflected in the following four reporting units: $444 million related to our Retirement Full Service business, $231 million related to our Asset Management business, $139 million related to our Gibraltar Life and Other operations and $10 million related to our International Insurance Life Planner business.

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We test goodwill for impairment on an annual basis, as of December 31 of each year, or more frequently if events or circumstances indicate the potential for impairment is more likely than not. The goodwill impairment analysis is performed at the reporting unit level which is equal to or one level below our operating segments. This analysis includes a qualitative assessment, for which reporting units may elect to bypass in accordance with accounting guidance, and a quantitative analysis consisting of two steps. For additional information on goodwill and the process for testing goodwill for impairment, see Note 2 and Note 9 to the Consolidated Financial Statements.

In the International Insurance's Life Planner business and the Asset Management segment, we elected to bypass the qualitative assessment and complete the impairment analysis using an earnings multiple approach. The earnings multiple approach indicates the value of a business based on comparison to publicly-traded comparable companies in similar lines of business. Each comparable company is analyzed based on various factors, including, but not limited to, financial risk, size, geographic diversification, profitability, adequate financial data, and an actively traded stock price. A multiple of price to earnings is developed for the comparable companies using independent analysts' consensus estimates for each company's 2015 forecasted earnings. The multiples are then aggregated and a mean and median multiple is calculated for the group. The lower of the mean or median multiple is then applied to the 2015 forecasted earnings of the reporting unit to develop a value. A control premium is then added to determine a total estimated fair value for the reporting unit.

In the Retirement Full Service business and Gibraltar Life and Other operations, we also elected to bypass the qualitative assessment and complete the impairment analysis using a discounted cash flow approach. The discounted cash flow approach calculates the value of a business by applying a discount rate reflecting the market expected rate of return of the reporting unit to its projected future cash flows. These projected future cash flows were based on our internal forecasts, an expected growth rate and a terminal value. The reporting unit expected rate of return represents the required rate of return on its total capitalization. The process of deriving reporting unit specific required rates of return begins with the calculation of an overall Company Weighted Average Cost of Capital, which includes the calculation of the required return on equity using a Capital Asset Pricing Model ("CAPM"). The CAPM is a generally accepted method for estimating an equity investor's return requirement, and hence a company's cost of equity capital. The calculation using the CAPM begins with the long-term risk-free rate of return, then applies a market risk premium for large company common stock, as well as company specific adjustments to address volatility versus the market. The Company then determines reporting unit specific required rates of return based on their relative volatilities, benchmarks results against reporting unit comparable companies, and ensures that the sum of the reporting unit required returns (after considering the impact of unallocated Corporate costs and capital) add up to the overall Company required return. This process results in reporting unit specific discount rates which are then applied to the expected future cash flows of the Retirement Full Service business and Gibraltar Life and Other operations to estimate their respective fair values.

After completion of Step 1 of the quantitative tests, the fair values exceeded the carrying amounts for each of the four reporting units and we concluded there was no impairment as of December 31, 2015. The Asset Management, International Insurance's Life Planner, Gibraltar Life and Other operations, and Retirement Full Service businesses had estimated fair values that exceeded their carrying amounts, each by more than 60%.

Estimating the fair value of reporting units is a subjective process that involves the use of significant estimates by management. Regarding all reporting units tested, market declines or other events impacting the fair value of these businesses, including discount rates, interest rates and growth rate assumptions or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income.

Valuation of Investments, Including Derivatives, and the Recognition of Other-than-Temporary Impairments

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, other invested assets, and derivative financial instruments. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the values of securities or commodities. Derivative financial instruments we generally use include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter ("OTC") market. We are also party to financial instruments that contain derivative instruments that are "embedded" in the financial instruments. Management believes the following accounting policies related to investments, including derivatives, are most dependent on the application of estimates and assumptions. Each of these policies is discussed further within other relevant disclosures related to the investments and derivatives, as referenced below:

- Valuation of investments, including derivatives;
- Recognition of other-than-temporary impairments ("OTTI"); and
- Determination of the valuation allowance for losses on commercial mortgage and other loans.

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We present at fair value in the statements of financial position our investments classified as available-for-sale (including fixed maturity and equity securities), investments classified as trading such as our trading account assets supporting insurance liabilities, derivatives and embedded derivatives. For additional information regarding the key estimates and assumptions surrounding the determination of fair value of fixed maturity and equity securities, as well as derivative instruments, embedded derivatives and other investments, see Note 20 to the Consolidated Financial Statements and "—Valuation of Assets and Liabilities—Fair Value of Assets and Liabilities."

For our investments classified as available-for-sale, the impact of changes in fair value is recorded as an unrealized gain or loss in accumulated other comprehensive income (loss) ("AOCI"), a separate component of equity. For our investments classified as trading, the impact of changes in fair value is recorded within "Other income." In addition, investments classified as available-for-sale, as well as those classified as held-to-maturity, are subject to impairment reviews to identify when a decline in value is other-than-temporary. For a discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording other-than-temporary impairments of fixed maturity and equity securities, see Note 2 to the Consolidated Financial Statements.

Commercial mortgage and other loans are carried primarily at unpaid principal balances, net of unamortized deferred loan origination fees and expenses and unamortized premiums or discounts and a valuation allowance for losses. For a discussion of our policies regarding the valuation allowance for commercial mortgage and other loans, see Note 2 to the Consolidated Financial Statements.

Policyholder Liabilities

Future Policy Benefit Reserves, including Unpaid Claims and Claim Adjustment Expenses

We establish reserves for future policy benefits to, or on behalf of, policyholders in the same period in which the policy is issued or acquired, using methodologies prescribed by U.S. GAAP. The reserving methodologies used include the following:

- For most long-duration contracts, we utilize best estimate assumptions as of the date the policy is issued or acquired with provisions for the risk of adverse deviation, as appropriate. After the liabilities are initially established, we perform premium deficiency tests using best estimate assumptions as of the testing date without provisions for adverse deviation. If the liabilities determined based on these best estimate assumptions are greater than the net reserves (i.e., GAAP reserves net of any DAC, DSI or VOBA asset), the existing net reserves are adjusted by first reducing these assets by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than these asset balances for insurance contracts, we then increase the net reserves by the excess, again through a charge to current period earnings. If a premium deficiency is recognized, the assumptions as of the premium deficiency test date are locked in and used in subsequent valuations.
- For certain reserves, such as our contracts with guaranteed minimum death benefits ("GMDB"), guaranteed minimum income benefits ("GMIB") and no-lapse guarantees, we utilize current best estimate assumptions in establishing reserves. The reserves are subject to adjustments based on annual reviews of assumptions and quarterly adjustments for experience, including market performance, and the reserves may be adjusted through a benefit or charge to current period earnings.
- For certain product guarantees, primarily certain living benefit features of the variable annuity products in our Individual Annuities segment, the benefits are accounted for as embedded derivatives, with fair values calculated as the present value of expected future benefit payments to contractholders less the present value of assessed rider fees attributable to the embedded derivative feature. Under U.S. GAAP, the fair values of these benefit features are based on assumptions a market participant would use in valuing these embedded derivatives. Changes in the fair value of the embedded derivatives are recorded quarterly through a benefit or charge to current period earnings.

The assumptions used in establishing reserves are generally based on the Company's experience, industry experience and/or other factors, as applicable. We typically update our actuarial assumptions, such as mortality, morbidity, retirement and policyholder behavior assumptions, annually, unless a material change is observed in an interim period that we feel is indicative of a long-term trend. Generally, we do not expect trends to change significantly in the short-term and, to the extent these trends may change, we expect such changes to be gradual over the long-term. In a sustained low interest rate environment, there is an increased likelihood that the reserves determined based on best estimate assumptions may be greater than the net liabilities.

The following paragraphs provide additional details about the reserves established by each of our segments.

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The future policy benefit reserves for our International Insurance segment, which as of December 31, 2015, represented 41% of our total future policy benefit reserves, primarily relate to non-participating whole life and term life products and endowment contracts, and are generally determined as the present value of expected future benefits to, or on behalf of, policyholders plus the present value of future maintenance expenses less the present value of future net premiums. For these reserves, we utilize best estimate assumptions as of the date the policy is issued or acquired with provisions for the risk of adverse deviation, as described above. The primary assumptions used in determining expected future benefits and expenses include mortality, lapse, morbidity, investment yield and maintenance expense assumptions. In addition, future policy benefit reserves for certain contracts also include amounts related to our deferred profit liability.

The reserves for future policy benefits of our Retirement segment, which as of December 31, 2015 represented 24% of our total future policy benefit reserves, primarily relate to our non-participating life contingent group annuity and structured settlement products. These reserves are generally determined as the present value of expected future benefits and expenses. For these reserves, we utilize best estimate assumptions as of the date the policy is issued or acquired with provisions for the risk of adverse deviation, as described above. For contracts that have recorded a premium deficiency reserve, we use assumptions as of the most recent premium deficiency reserve establishment. The primary assumptions used in establishing these reserves include mortality, retirement, maintenance expense, and interest rate assumptions. In addition, future policy benefit reserves for certain contracts also include amounts related to our deferred profit liability.

The reserves for future policy benefits of our Individual Annuities segment, which as of December 31, 2015 represented 5% of our total future policy benefit reserves, primarily relate to reserves for the GMDB and GMIB features of our variable annuities, and for the optional living benefit features that are accounted for as embedded derivatives. As discussed above, in establishing reserves for GMDBs and GMIBs, we utilize current best estimate assumptions. The primary assumptions used in establishing these reserves include annuitization, lapse, withdrawal and mortality assumptions, as well as interest rate and equity market return assumptions. Lapse rates are adjusted at the contract level based on the in-the-moneyness of the living benefit and reflect other factors, such as the applicability of any surrender charges. Lapse rates are reduced when contracts are more in-the-money. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.

The reserves for certain living benefit features, including guaranteed minimum accumulation benefits (“GMAB”), guaranteed minimum withdrawal benefits (“GMWB”) and guaranteed minimum income and withdrawal benefits (“GMIWB”), are accounted for as embedded derivatives, with fair values calculated as the present value of expected future benefit payments to contractholders less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various actuarial 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. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company’s market-perceived risk of its own non-performance (“NPR”), as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal rates, and mortality rates. Capital market inputs and actual contractholders’ account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk neutral valuation, the initial swap curve drives the total returns used to grow the contractholders’ account values. The Company’s discount rate assumption is based on the London Inter-Bank Offered Rate (“LIBOR”) swap curve adjusted for an additional spread relative to LIBOR to reflect NPR. Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually, and updated based upon emerging experience, future expectations and other data, including any observable market data, such as available industry

studies or market transactions such as acquisitions and reinsurance transactions. For additional information regarding the valuation of these optional living benefit features, see Note 20 to the Consolidated Financial Statements.

The future policy benefit reserves for our Individual Life segment, which as of December 31, 2015, represented 4% of our total future policy benefit reserves, primarily relate to term life, universal life and variable life products. For term life contracts, the future policy benefit reserves are determined as the present value of expected future benefits to, or on behalf of, policyholders plus the present value of future maintenance expenses less the present value of future net premiums. For these reserves, we utilize best estimate assumptions as of the date the policy is issued or acquired with provisions for the risk of adverse deviation, as described above. The primary assumptions used in determining expected future benefits and expenses include mortality, lapse, and maintenance expense assumptions. For variable and universal life products, which include universal life contracts that contain no-lapse guarantees, reserves are established using current best estimate assumptions, as described above.

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The reserves for future policy benefits of our Group Insurance segment, which as of December 31, 2015 represented 2% of our total future policy benefit reserves, primarily relate to reserves for group life and disability benefits. For short-duration contracts, a liability is established when the loss occurs. The reserves for group life and disability benefits include our liability of $2.8 billion for unpaid claims and claim adjustment expenses for our Group Insurance segment as of December 31, 2015, which relates primarily to the group long-term disability product. This liability represents our estimate of future disability claim payments and expenses as well as estimates of claims that have been incurred, but have not yet been reported, as of the balance sheet date. The liability is determined as the present value of expected future claim payments and expenses. The primary assumptions used in determining expected future claim payments are claim termination factors, an assumed interest rate and expected Social Security offsets. Long-term disability claims and claim termination experience may be affected by the economic environment and internal factors such as our claims management process. The remaining reserves for future policy benefits for group life and disability benefits relate primarily to our group life business, and include reserves for Waiver of Premium, Claims In Course of Settlement (“ICOS”) and Claims Incurred But Not Reported (“IBNR”). The Waiver of Premium reserve is calculated as the present value of future benefits, and utilizes assumptions such as expected mortality and recovery rates. The ICOS reserve is based on the inventory of claims that have been reported but not yet paid. The IBNR reserve is estimated using expected patterns of claims reporting.
The reserves for future policy benefits of our Corporate & Other operations, which as of December 31, 2015 represented 2% of our total future policy benefit reserves, primarily relate to our long-term care products. These reserves are generally determined as the present value of expected future benefits and expenses less future premiums. Most contracts have recorded a premium deficiency reserve, for which we use assumptions as of the most recent premium deficiency reserve establishment. The primary assumptions used in establishing these reserves include interest rate, morbidity, mortality, lapse, premium rate increase and maintenance expense assumptions. In addition, certain less significant reserves for our long-term care products, such as our disabled life reserves, are established using current best estimate actuarial assumptions, as described above.

The future policy benefit reserves for the traditional participating life insurance products of the Closed Block division, which as of December 31, 2015, represented 22% of our total future policy benefit reserves are determined using the net level premium method. Under this method, the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use mortality assumptions to determine our expected future benefits and expected future premiums, and apply an interest rate to determine the present value of both the expected future benefit payments and the expected future premiums. The mortality assumptions are based on standard industry mortality tables that were used to determine the cash surrender value of the policies, and the interest rates used are the interest rates used to calculate the cash surrender value of the policies.

Sensitivity for Future Policy Benefit Reserves

We expect the future benefit reserves in our Individual Annuities segment that are based on current best estimate assumptions, and those that represent embedded derivatives recorded at fair value to be the ones most likely to drive variability in earnings from period to period.

For the GMDB and GMIB features of our variable annuities in our Individual Annuities segment, the reserves for these contracts are significantly influenced by the future rate of return assumptions. The following table provides a demonstration of the sensitivity of the reserves for GMDBs and GMIBs related to variable annuity contracts relative to our future rate of return assumptions by quantifying the adjustments to these reserves that would be required assuming both a 100 basis point increase and decrease in our future rate of return. The information below is for illustrative purposes only and considers only the direct effect of changes in our future rate of return on operating results due to the change in the reserve balance and not changes in any other assumptions such as persistency or mortality included in our evaluation of the reserves, or any changes on DAC or other balances, discussed above in “—Deferred Policy Acquisition and Other Costs.”

	December 31, 2015 Increase/(Decrease) in GMDB/GMIB Reserves (in millions)
Decrease in future rate of return by 100 bps	$ 189
Increase in future rate of return by 100 bps	$ (140)

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In addition to the impact of market performance relative to our future rate of return assumptions, other factors may also drive variability in the change in reserves, particularly when our annual assumption updates are performed. As noted above, however, the impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time. In 2015, updates to utilization rate assumptions, partially offset by updates to projected interest rate assumptions, drove the most significant changes to these reserves. For a discussion of adjustments to the reserves for GMDBs and GMIBs for the years ended December 31, 2015, 2014 and 2013, see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities."

For certain living benefit features of the variable annuities in our Individual Annuities segment that are accounted for as embedded derivatives, the changes in reserves are significantly impacted by changes in both the capital markets assumptions and actuarial assumptions. Capital market inputs and actual policyholders' account values are updated each quarter based on capital market conditions as of the end of the quarter, while actuarial assumptions are reviewed at least annually, and updated based upon emerging experience, future expectations and other data. For additional information about the impacts of capital markets assumptions, including interest rates, NPR credit spreads and equity returns, refer to "Quantitative and Qualitative Disclosures About Market Risk" below. In 2015, updates to mapping of funds to related indices, partially offset by updates to mortality rate assumptions drove the most significant changes to these reserves. Other factors may also drive variability in the change in reserves, particularly when our annual assumption updates are performed. As noted above, however, the impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time. For a discussion of the drivers of the changes in our optional living benefit features for the years ended December 31, 2015, 2014 and 2013, see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities."

Unearned revenue reserve

Our unearned revenue reserve ("URR"), reported as a component of "Policyholders' account balances," is $2.2 billion as of December 31, 2015. This reserve primarily relates to variable and universal life products within our Individual Life segment and represents policy charges for services to be provided in future periods. The charges are deferred as unearned revenue and are generally amortized over the expected life of the contract in proportion to the product's estimated gross profits, similar to DAC as discussed above.

For the variable and universal life policies of our Individual Life segment, a significant portion of our gross profits is derived from mortality margins. As a result, our estimates of future gross profits are significantly influenced by our mortality assumptions. Our mortality assumptions are used to estimate future death claims over the life of these policies and are developed based on Company experience, industry experience and/or other factors. Unless a material change in mortality experience that we feel is indicative of a long-term trend is observed in an interim period, we generally update our mortality assumptions annually. Updates to our mortality assumptions in future periods could have a significant adverse or favorable effect on the results of our operations in the Individual Life segment.

The URR balance associated with the variable and universal life policies of our Individual Life segment as of December 31, 2015 was $1.9 billion. The following table provides a demonstration of the sensitivity of that URR balance relative to our future mortality assumptions by quantifying the adjustments that would be required, assuming both an increase and decrease in our future mortality rate by 1%. The information below is for illustrative purposes only and considers only the direct effect of changes in our mortality assumptions on the URR balance and not changes in any other assumptions such as persistency, future rate of return, or expenses included in our evaluation of URR. It does not reflect changes in assets, such as DAC, which would partially offset the adjustments to the URR balance reflected below. The impact of DAC is discussed in more detail above in "—Deferred Policy Acquisition and Other Costs."

	December 31, 2015 Increase/(Decrease) in URR (in millions)
Decrease in future mortality by 1%	$ 37
Increase in future mortality by 1%	$ (38)

In addition to the impact of mortality experience relative to our assumptions, other factors may also drive variability in the change in reserves, particularly when our annual assumption updates are performed. As noted above, however, the impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time. In 2015, updates to mortality assumptions drove the most significant changes to our URR reserve. For a discussion of the drivers of URR adjustments related to our Individual Life segment for the years ended December 31, 2015, 2014 and 2013, see "—Results of Operations by Segment—U.S. Individual Life and Group Insurance Division—Individual Life."

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Pension and Other Postretirement Benefits

We sponsor pension and other postretirement benefit plans covering employees who meet specific eligibility requirements. Our net periodic costs for these plans consider an assumed discount (interest) rate, an expected rate of return on plan assets, expected increases in compensation levels, mortality and trends in health care costs. Of these assumptions, our expected rate of return assumptions and our discount rate assumptions have historically had the most significant effect on our net period costs associated with these plans.

We determine our expected rate of return on plan assets based upon a building block approach that considers inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation as well as expenses, expected asset manager performance and the effect of rebalancing for the equity, debt and real estate asset mix applied on a weighted average basis to our pension asset portfolio. See Note 18 to our Consolidated Financial Statements for our actual asset allocations by asset category and the asset allocation ranges prescribed by our investment policy guidelines for both our pension and other postretirement benefit plans. Our assumed long-term rate of return for 2015 was 6.25% for our domestic pension plans and 7.00% for our other postretirement benefit plans. Given the amount of plan assets as of December 31, 2014, the beginning of the measurement year, if we had assumed an expected rate of return for both our domestic pension and other domestic postretirement benefit plans that was 100 bps higher or 100 bps lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed long-term rate of return given the level and mix of invested assets at the beginning of the measurement year, without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed long-term rate of return.

	For the year ended December 31, 2015	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in expected rate of return by 100 bps	$(121)	$(16)
Decrease in expected rate of return by 100 bps	$121	$16

Foreign pension plans represent 5% of plan assets at the beginning of 2015. An increase in expected rate of return by 100 bps would result in a decrease in net periodic pension costs of $6 million; conversely, a decrease in expected rate of return by 100 bps would result in an increase in net periodic pension costs of $6 million.

We determine our discount rate, used to value the pension and postretirement benefit obligations, based upon rates commensurate with current yields on high quality corporate bonds. See Note 18 to our Consolidated Financial Statements for information regarding the December 31, 2014 methodology we employed to determine our discount rate for 2015. Our assumed discount rate for 2015 was 4.10% for our domestic pension plans and 3.95% for our other domestic postretirement benefit plans. Given the amount of pension and postretirement obligations as of December 31, 2014, the beginning of the measurement year, if we had assumed a discount rate for both our domestic pension and other postretirement benefit plans that was 100 bps higher or 100 bps lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed discount rate without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed discount rate.

	For the year ended December 31, 2015	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in discount rate by 100 bps	$(98)	$(6)
Decrease in discount rate by 100 bps	$142	$4

Foreign pension plans represent 13% of plan obligations at the beginning of 2015. An increase in discount rate by 100 bps would result in a decrease in net periodic pension costs of $1 million; conversely, a decrease in discount rate by 100 bps would result in an increase in net periodic pension costs of $4 million.

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Given the application of the authoritative guidance for accounting for pensions, and the deferral and amortization of actuarial gains and losses arising from changes in our assumed discount rate, the change in net periodic pension cost arising from an increase in the assumed discount rate by 100 bps would not be expected to equal the change in net periodic pension cost arising from a decrease in the assumed discount rate by 100 bps.

For a discussion of our expected rate of return on plan assets and discount rate for our qualified pension plan in 2015, see "—Results of Operations by Segment—Corporate and Other."

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2016, we will increase the discount rate to 4.50% from 4.10% in 2015. The expected rate of return on plan assets will remain unchanged at 6.25%, and the assumed rate of increase in compensation will remain unchanged at 4.5%.

In addition to the effect of changes in our assumptions, the net periodic cost or benefit from our pension and other postretirement benefit plans may change due to factors such as actual experience being different from our assumptions, special benefits to terminated employees, or changes in benefits provided under the plans.

At December 31, 2015, the sensitivity of our domestic and foreign pension and postretirement obligations to a 100 basis point change in discount rate was as follows:

	December 31, 2015	
	Increase/(Decrease) in Pension Benefits Obligation	Increase/(Decrease) in Accumulated Postretirement Benefits Obligation
	(in millions)	
Increase in discount rate by 100 bps	$(1,310)	$ (186)
Decrease in discount rate by 100 bps	$1,568	$ 204

Taxes on Income

Our effective tax rate is based on income, non-taxable and non-deductible items, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. Inherent in determining our annual tax rate are judgments regarding business plans, planning opportunities and expectations about future outcomes. The dividend received deduction ("DRD") is a major reason for the difference between the Company's effective tax rate and the federal statutory rate of 35%. The DRD estimate incorporates the prior year results as well as the current year's equity market performance. Both the current estimate of the DRD and the DRD in future periods can vary based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from underlying fund investments, changes in the account balances of variable life and annuity contracts, and the Company's taxable income before the DRD.

The Company provides for U.S. income taxes on its unremitted foreign earnings of its insurance operations in Brazil, a portion of its unremitted foreign earnings of its insurance operations in Japan and Korea, and the unremitted foreign earnings of certain operations in Germany and Taiwan. Unremitted foreign earnings from operations in other foreign jurisdictions are considered to be permanently reinvested.

An increase or decrease in our effective tax rate by one percent of income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures, would have resulted in an increase or decrease in our consolidated income from continuing operations before equity in earnings of operating joint ventures in 2015 of $78 million.

The Company’s liability for income taxes includes the liability for unrecognized tax benefits and interest that relate to tax years still subject to review by the Internal Revenue Service (“IRS”) or other taxing authorities. See Note 19 to the Consolidated Financial Statements for a discussion of the impact in 2015, 2014 and 2013 of changes to our total unrecognized tax benefits. We do not anticipate any significant changes within the next twelve months to our total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

The Company’s affiliates in Japan and Korea file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations for Japan and Korea are five years from when the return is filed.

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Contingencies

A contingency is an existing condition that involves a degree of uncertainty that will ultimately be resolved upon the occurrence of future events. Under U.S. GAAP, accruals for contingencies are required to be established when the future event is probable and its impact can be reasonably estimated, such as in connection with an unresolved legal matter. The initial reserve reflects management's best estimate of the probable cost of ultimate resolution of the matter and is revised accordingly as facts and circumstances change and, ultimately, when the matter is brought to closure.

Adoption of New Accounting Pronouncements

There were no new accounting pronouncements adopted during 2015 requiring the application of critical accounting estimates. See Note 2 to the Consolidated Financial Statements for a complete discussion of newly issued accounting pronouncements.

Results of Operations by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

The Individual Annuities segment offers both variable and fixed annuities that may include guaranteed living or death benefits. It also offers fixed annuities that provide a guarantee of principal and interest credited at rates we determine, subject to certain contractual minimums. We derive our revenue mainly from fee income generated on variable annuity account values, as the investment return on the contractholder funds is generally attributed directly to the contractholder. We also earn investment income on fixed annuity account values and certain other management fees. Our expenses primarily consist of interest credited and other benefits to contractholders, amortization of DAC and other costs, non-deferred expenses related to the selling and servicing of the various products we offer, costs of hedging certain risks associated with these products, changes in the reserves for benefit guarantees and other general business expenses. These drivers of our business results are generally included in adjusted operating income, with exceptions related to certain guarantees, as discussed below.

The U.S. GAAP accounting and our adjusted operating income treatment for our guarantees differ depending upon the specific feature. The reserves for our GMDB and GMIB features are calculated based on our best estimate of actuarial and capital markets return assumptions. The risks associated with these benefit features are retained and results are included in adjusted operating income. In contrast, certain of our guaranteed living benefit features are accounted for as embedded derivatives and reported at fair value. Under U.S. GAAP, the fair values of these benefit features are based on assumptions a market participant would use in valuing these embedded derivatives. We hedge or limit our exposure to certain risks associated with these features through our living benefits hedging program and product design features. Adjusted operating income, as discussed below in "—Adjusted Operating Income" and "—Revenues, Benefits and Expenses," excludes amounts related to changes in the market value of the embedded derivatives and related hedge positions, and the related impact to amortization of DAC and other costs. The items excluded from adjusted operating income are discussed below in "—Variable Annuity Hedging Program Results."

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 our pattern of amortization of DAC and other costs. Account values are driven by net flows from new business sales, surrenders, withdrawals and benefit payments, the impact of market value changes, which

can be either positive or negative, and policy charges. The annuity industry competitive landscape, which has 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.

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	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Total Individual Annuities(1):			
Beginning total account value	$158,664	$154,140	$135,342
Sales	8,780	10,008	11,513
Surrenders and withdrawals	(8,415)	(8,852)	(7,727)
Net sales	365	1,156	3,786
Benefit payments	(1,910)	(1,799)	(1,617)
Net flows	(1,545)	(643)	2,169
Change in market value, interest credited and other activity	(585)	8,666	19,826
Policy charges	(3,589)	(3,499)	(3,197)
Ending total account value	$152,945	$158,664	$154,140

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(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 $149.4 billion, $155.1 billion and $150.4 billion as of December 31, 2015, 2014 and 2013, respectively. Fixed annuity account values were $3.5 billion, $3.6 billion and $3.7 billion as of December 31, 2015, 2014 and 2013, respectively.

2015 to 2014 Annual Comparison. The decrease in account values during 2015 was largely driven by policy charges on contractholder accounts, benefit payments and unfavorable changes in the market value of contractholder funds. These negative impacts were partially offset by positive net sales. The decline in net sales for 2015 compared to 2014 was largely driven by decreased sales of our Prudential Premier® Retirement Variable Annuity with "highest daily" benefit riders from actions we have taken in response to capital markets conditions. This was partially offset by an increase in sales of our Prudential Premier® Investment Variable Annuity ("PPI") and Prudential Defined Income Variable Annuity ("PDI") products, as a result of our product diversification strategy.

2014 to 2013 Annual Comparison. The increase in account values during 2014 was largely driven by changes in the market value of contractholder funds, partially offset by policy charges on contractholder accounts and benefit payments. Positive net sales also contributed to account value growth, but to a lesser extent, as results for 2014 compared to 2013 reflected a decline in sales coupled with an increase in surrenders and withdrawals. The decline in net sales reflected a decline in sales of our products with the highest daily benefit, partially offset by higher sales of our PDI product, and higher surrenders and withdrawals.

Operating Results

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

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Operating results:			
Revenues	$4,695	$4,710	$4,465
Benefits and expenses	2,898	3,243	2,380
Adjusted operating income	1,797	1,467	2,085
Realized investment gains (losses), net, and related adjustments	1,588	521	(5,918)

Related charges	(624)	(137)	1,716
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$2,761	$1,851	$(2,117)

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Adjusted Operating Income

2015 to 2014 Annual Comparison. Adjusted operating income increased $330 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased $39 million. The increase was driven by higher asset-based fee income due to growth in average variable annuity account values, net of a related increase in asset-based commissions, a decline in interest expense driven by lower debt, and a decline in amortization costs. Partially offsetting this net increase were costs for contract cancellations in connection with remediation of an error in an illustration contained in certain product marketing materials, higher operating expenses and a decline in net investment income driven by lower income on non-coupon investments.

The impacts of changes in the estimated profitability of the business include adjustments to the amortization of DAC and other costs and to the reserves for the GMDB and GMIB features of our variable annuity products. These adjustments resulted in a net benefit of $162 million and a net charge of $129 million in 2015 and 2014, respectively. The $162 million net benefit in 2015 primarily reflected the net impact of equity market performance on contractholder accounts relative to our assumptions, as well as a net benefit resulting from our annual review and update of assumptions. The $129 million net charge in 2014 primarily reflected the impact of lower expected rates of return on fixed income investments within contractholder accounts and on future expected claims relative to our assumptions, which more than offset a net favorable impact from equity market performance. Partially offsetting this net charge was a net benefit resulting from the annual review and update of assumptions performed in that year.

2014 to 2013 Annual Comparison. Adjusted operating income decreased $618 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased $207 million. The increase was driven by higher asset-based fee income due to growth in average variable annuity account values, net of a related increase in asset-based commissions. Also contributing to the increase were lower amortization costs and reserve provisions for the GMDB and GMIB features of our variable annuity products.

Adjustments to the amortization of DAC and other costs and to the reserves for the GMDB and GMIB features of our variable annuity products resulted in a net charge of $129 million and a net benefit of $696 million in 2014 and 2013, respectively. The $129 million net charge in 2014 primarily reflected the impact of lower expected rates of return on fixed income investments within contractholder accounts and on future expected claims relative to our assumptions, which more than offset a net favorable impact from equity market performance. Partially offsetting this net charge was a net benefit resulting from the annual review and update of assumptions performed in that year. The $696 million net benefit in 2013 included a $301 million net benefit resulting from the annual review and update of assumptions and other refinements performed in that year. The remaining net benefit reflected the impact of positive market performance on contractholder accounts relative to our assumptions.

Revenues, Benefits and Expenses

2015 to 2014 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $15 million, primarily driven by a $27 million decrease in net investment income due to lower income on non-coupon investments, partially offset by a $19 million increase in policy charges and fee income due to growth in average variable annuity account values.

Benefits and expenses, as shown in the table above under "—Operating Results," decreased $345 million. Absent the $291 million net decrease related to the impacts of certain changes in our estimated profitability of the business discussed above, benefits and expenses decreased $54 million. Interest expense decreased $38 million driven by lower debt, and interest credited to policyholders' account balances decreased $26 million driven by lower average account values in the general account. Partially offsetting these decreases was a $14 million increase in policyholders' benefits driven by costs for contract cancellations, as discussed above.

2014 to 2013 Annual Comparison. Revenues increased $245 million, primarily driven by a $311 million increase in policy charges and fee income, asset management and service fees and other income, due to growth in average variable annuity account values. Partially offsetting this increase was a $63 million decline in net investment income, driven by lower reinvestment rates and lower average account values in the general account due to surrenders of legacy general account products.

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Benefits and expenses increased $863 million. Absent the $825 million net increase related to the impacts of certain changes in our estimated profitability of the business discussed above, benefits and expenses increased $38 million. General and administrative expenses, net of capitalization, increased $111 million, driven by higher asset-based commissions and asset management costs due to account value growth. Interest expense increased $16 million, driven by issuance of longer duration debt, partially offset by repayments of debt. Partially offsetting these increases was a $45 million decrease in interest credited to policyholders' account balances driven by lower average account values in the general account. Amortization of DAC decreased $22 million primarily due to lower amortization rates, and policyholders' benefits decreased $22 million primarily due to changes in reserves.

Variable Annuity Risks and Risk Mitigants

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 our actuarial assumptions, we have retained the majority of the risk that actual experience will differ from the assumptions used in the original pricing of these products. For our capital markets assumptions, we hedge or limit our exposure to certain risks created by capital markets fluctuations through a combination of product design features, such as an automatic rebalancing feature, also referred to as an asset transfer feature, and inclusion of certain living benefits in our hedging program. In addition, we consider external reinsurance a form of risk mitigation. Effective April 1, 2015, we entered into an agreement with Union Hamilton Reinsurance, Ltd. ("Union Hamilton"), an external counterparty, to reinsure approximately 50% of the Highest Daily Lifetime Income ("HDI") v.3.0 business. HDI v.3.0 is the newest version of our "highest daily" living benefits guarantee that is available with our Prudential Premier® Retirement Variable Annuity. This reinsurance agreement covers most new HDI v.3.0 variable annuity business issued between April 1, 2015 and December 31, 2016 on a quota share basis, until Union Hamilton's quota share reaches $5 billion of new rider premiums through December 31, 2016.

Our automatic rebalancing feature occurs 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 automatic rebalancing feature associated with currently-sold highest daily benefit products uses a designated bond fund sub-account within the separate accounts. The transfers are based on a static mathematical formula used with the particular benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder's total account value. 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 allocation to our general account for certain of our products. We have also introduced new products that diversify our risk profile and incorporate provisions in product design allowing frequent revisions of key pricing elements. In addition, 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.

We use our hedging program to help manage certain risks associated with certain of our guarantees. The hedging program's objective is to help mitigate fluctuations in net income and capital from living benefit liabilities due to capital market movements, within established tolerances. Through our hedging program, we enter into derivative positions that seek to offset the net change in our hedge target, discussed further below. In addition to mitigating fluctuations of the living benefit liabilities due to capital market movements, the hedging program is also focused on a long-term goal of accumulating assets that could be used to pay claims under these benefits irrespective of market path. For additional information regarding this program, see "—Variable Annuities Hedging Program Results" below.

For certain living benefits features, claims will primarily represent the funding of contractholder lifetime withdrawals after the cumulative withdrawals have first exhausted the contractholder account value. Due to the age of the in force block, limited claim payments have occurred to date, and they are not expected to increase significantly within the next five years, based upon current assumptions. The timing and amount of future claims will depend on actual returns on contractholder account value and actual contractholder behavior relative to our assumptions. The majority of our current living benefits features provide for guaranteed lifetime contractholder withdrawal payments inclusive of a "highest daily" contract value guarantee. Our PDI variable annuity complements our variable annuity products with the highest daily benefit and provides for guaranteed lifetime contractholder withdrawal payments, but restricts contractholder asset allocation to a single bond fund sub-account within the separate account.

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The majority of our variable annuity contracts with living benefits features, and all new contracts sold with our highest daily living benefits feature, include risk mitigants in the form of an automatic rebalancing feature and/or inclusion in our hedging program. As discussed above, we also utilize external reinsurance as a form of additional risk mitigation. The guaranteed benefits of certain legacy products that were sold prior to our implementation of the automatic rebalancing feature are also included in our hedging program. Certain legacy GMAB products include the automatic rebalancing feature, but are not included in the hedging program. The PDI product and contracts with the GMIB feature have neither risk mitigant. Rather than utilizing a capital markets hedging strategy, certain risks associated with PDI are managed through the limitation of contractholder asset allocations to a single bond fund sub-account.

For our GMDBs, we provide a benefit payable in the event of death. Our base GMDB is generally equal to a return of cumulative deposits adjusted for any partial withdrawals. Certain products include an optional enhanced GMDB based on the greater of a minimum return on the contract value or an enhanced value. We have retained the risk that the total amount of death benefit payable may be greater than the contractholder account value. However, a substantial portion of the account values associated with GMDBs are subject to an automatic rebalancing feature because the contractholder also selected a living benefit feature which includes an automatic rebalancing feature. All of the variable annuity account values with living benefit features also contain GMDBs. The living and death benefit features for these contracts cover the same insured life and, consequently, we have insured both the longevity and mortality risk on these contracts.

The following table sets forth the risk profile of our living benefits and GMDB features as of the periods indicated.

	December 31,								
	2015			2014			2013		
	Account Value	% of Total		Account Value	% of Total		Account Value	% of Total	
	(in millions)								
Living benefit/GMDB features(1):									
Both hedging program and automatic rebalancing(2)	$106,018	71	%	$110,953	72	%	$105,630	71	%
Hedging program only	9,994	7	%	11,395	7	%	12,229	8	%
Automatic rebalancing only	1,393	1	%	1,771	1	%	2,280	2	%
External reinsurance(3)	1,513	1	%	0	0	%	0	0	%
PDI	4,664	3	%	2,777	2	%	793	0	%
Other Products	2,870	2	%	3,324	2	%	3,666	3	%
Total living benefit/GMDB features	$126,452			$130,220			$124,598		
GMDB features and other(4):	22,989	15	%	24,863	16	%	25,869	16	%
Total variable annuity account value	$149,441			$155,083			$150,467		

(1) All contracts with living benefit guarantees also contain GMDB features, covering the same insured contract.
(2) Contracts with living benefits that are included in our hedging program, and have an automatic rebalancing feature.
(3) Represents contracts subject to reinsurance transaction with external counterparty effective April 1, 2015. 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.

The risk profile of our variable annuity account values as of the periods above reflect our product risk diversification strategy and the runoff of legacy products over time.

Variable Annuity Hedging Program Results

Under U.S. GAAP, the liability for certain living benefit features is accounted for as an embedded derivative and recorded at fair value, based on assumptions a market participant would use in valuing these features. The fair value is calculated as the present value of future expected benefit payments to contractholders less the present value of assessed rider fees attributable to the applicable living benefit features using option pricing techniques. See Note 20 to the Consolidated Financial Statements for additional information regarding the methodology and assumptions used in calculating the fair value under U.S. GAAP.

As noted within "—Variable Annuity Risks and Risk Mitigants" above, we maintain a hedging program to help manage certain capital market risks associated with certain of these guarantees. Our hedging program utilizes an internally-defined hedge target. We review our hedge target and hedging program on an ongoing basis, and may periodically adjust them based on our evaluation of the risks associated with the guarantees and other factors. As currently defined, our hedge target includes the following modifications to the assumptions used in the U.S. GAAP valuation:

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- The impact of NPR is excluded to maximize protection against the entire projected claim irrespective of the possibility of our own default.
- The assumptions used in the projection of customer account values for fixed income and equity funds and the discounted net living benefits (claims less fees) are adjusted to reflect returns in excess of risk-free rates equal to our expectations of credit risk premiums.
- Actuarial assumptions are adjusted to remove risk margins and reflect our best estimates.

Due to these modifications, we expect differences each period between the change in the value of the embedded derivative as defined by U.S. GAAP and the change in the value of the hedge positions used to manage the hedge target, thus potentially increasing volatility in U.S. GAAP earnings. Application of the valuation methodologies described above could result in either a liability or contra-liability balance for the fair value of the embedded derivative under U.S. GAAP and/or the value of the hedge target, given changing capital market conditions and various actuarial assumptions. The following table provides a reconciliation between the fair value of the embedded derivative as defined by U.S. GAAP and the value of our hedge target as of the periods indicated.

	As of December 31,	
	2015	2014
	(in billions)	
Embedded derivative liability as defined by U.S. GAAP	$8.4	$8.1
Less: NPR Adjustment	(8.9)	(6.7)
Embedded derivative liability as defined by U.S. GAAP, excluding NPR	17.3	14.8
Less: Amount of embedded derivative liability, excluding NPR, excluded from hedge target liability	6.4	6.1
Hedge target liability (contra-liability)	$10.9	$8.7

We seek to offset the changes in our hedge target by entering into a range of exchange-traded, cleared and over the counter equity and interest rate derivatives to hedge certain capital market risks present in our hedge target. The instruments include, but are not limited to, interest rate swaps, swaptions, floors and caps as well as equity options, total return swaps and equity futures. The following table sets forth the market and notional values of these instruments as of the periods indicated.

	As of December 31, 2015				As of December 31, 2014			
	Equity		Interest Rate		Equity		Interest Rate	
Instrument	Notional	Market Value	Notional	Market Value	Notional	Market Value	Notional	Market Value
	(in billions)							
Futures	$0.1	$0.0	$0.8	$0.0	$0.2	$0.0	$0.0	$0.0
Swaps(1)	17.2	(0.1)	91.7	6.2	14.5	(0.4)	87.7	5.1
Options	5.0	0.0	14.4	0.2	10.4	0.4	25.5	0.5
Total	$22.3	$(0.1)	$106.9	$6.4	$25.1	$0.0	$113.2	$5.6

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(1) Includes interest rate swaps for which offsetting positions exist in Corporate and Other operations, reflecting the impact of managing interest rate risk through capital management strategies other than hedging of particular exposures. See "—Corporate and Other."

Due to cash flow timing differences between our hedging instruments and the corresponding hedge target, as well as other factors such as updates to actuarial assumptions which are not hedged, the market value of the hedge portfolio compared to our hedge target measured as of any specific point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held as part of the hedging program, we have cash and other invested

assets available to cover the future claims payable under these guarantees and other liabilities. For additional information on the liquidity needs associated with our hedging program, see "—Liquidity and Capital Resources—Liquidity—Liquidity associated with other activities—Hedging activities associated with living benefit guarantees."

The primary sources of differences between the changes in the fair value of the hedge positions and the hedge target, other than changes related to actuarial assumption updates, fall into one of three categories:

- Fund Performance—In order to project future account value changes, we make certain assumptions about how each underlying fund will perform. We map contractholder funds to hedgeable indices that we believe are the best representation of the liability to be hedged in the capital markets. The difference between the modeled fund performance and actual fund performance results in basis that can be either positive or negative.

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- Net Market Impact—We incur rebalancing costs related to the dynamic rebalancing of the hedging instruments as markets move. Our hedging program is also subject to the impact of implied and realized market volatility on the hedge positions relative to our hedge target that can lead to positive or negative results.

- Liability Basis—We make assumptions about expected changes in the hedge target related to certain items, such as contractholder behavior. The difference between the actual change in the hedge target and the expected changes we have modeled results in basis that can be either positive or negative.

The net impact of the change in the fair value of the embedded derivative associated with our living benefit features and the change in the fair value of the related hedge positions is included in “Realized investment gains (losses), net, and related adjustments” and the related impact to the amortization of DAC and other costs is included in “Related charges,” both of which are excluded from adjusted operating income. The following table shows the net impact of changes in the embedded derivative and related hedge positions, as well as the related amortization of DAC and other costs, for the periods indicated.

	Year ended December 31,		
	2015	2014	2013
	(1) (in millions)		
Hedge Program Results:			
Change in value of hedge target(2)(3)	$(1,378)	$(7,630)	$9,234
Change in fair value of hedge positions	831	7,209	(9,465)
Net hedging impact(2)(4)	(547)	(421)	(231)
Reconciliation of Hedge Program Results to U.S. GAAP Results:			
Net hedging impact (from above)	$(547)	$(421)	$(231)
Change in portions of U.S. GAAP liability, before NPR, excluded from hedge target(2)(5)	(67)	(1,997)	902
Change in the NPR adjustment(2)	2,243	3,824	(4,333)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions—reported in Individual Annuities	1,629	1,406	(3,662)
Related benefit (charge) to amortization of DAC and other costs(2)	(701)	(496)	1,161
Net impact of annual assumption updates and other refinements	(34)	(631)	(1,533)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs—reported in Individual Annuities(4)	$894	$279	$(4,034)

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

(2) Excludes the net impacts of assumption updates and other refinements, and includes rider fees received attributable to future benefit payments. The assumption update impact to the change in value of hedge target was approximately $106 million, $(1,263) million and $(1,386) million for 2015, 2014 and 2013, respectively. The assumption update impact to the change in portions of U.S. GAAP liability, before NPR, excluded from hedge target, was approximately $(172) million, $(318) million and $(2,542) million for 2015, 2014 and 2013, respectively. The assumption update impact to the change in the NPR adjustment was approximately $(8) million, $618 million and $1,798 million for 2015, 2014 and 2013, respectively. The assumption update impact to the related benefit (charge) to amortization of DAC and other costs was approximately $40 million, $332 million and $597 million for 2015, 2014 and 2013, respectively.

(3) Attributed fees received for 2015, 2014 and 2013 were approximately $999 million, $940 million and $862 million, respectively, and were included in “Change in value of hedge target.”

(4) Excludes $(585) million, $(3,036) million and $1,603 million for 2015, 2014 and 2013, respectively, representing the impact of managing interest rate risk through capital management strategies other than hedging of particular exposures. Because this decision is based on the capital considerations of the Company as a whole, the impact is reported in Corporate and Other operations. See "—Corporate and Other."

(5) Represents the impact attributable to the difference between the value of the hedge target and the value of the embedded derivative as defined by U.S. GAAP, before adjusting for NPR, as discussed above.

The net gain of $894 million for 2015 primarily reflected a $2,243 million net benefit from the change in the NPR adjustment, driven by net increases in the base embedded derivative liability before NPR primarily due to declining interest rates and widening credit spreads. This impact was partially offset by a $547 million net charge from changes in the value of our hedge target and related hedge positions, primarily driven by fund underperformance relative to indices and unfavorable liability basis. Each of these items resulted in partial offsets included in the $701 million related charge to the amortization of DAC and other costs. The net charge from the impact of assumption updates and other refinements of $34 million resulted from our annual review and update of assumptions, primarily driven by modifications to our actuarial assumptions and other refinements. Results also reflected the changes in the portions of the U.S. GAAP liability that are excluded from our hedge target, net of related impacts to the amortization of DAC and other costs.

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The net gain of $279 million for 2014 primarily reflected a $3,824 million net benefit from the change in the NPR adjustment driven by net increases in the base embedded derivative liability before NPR, primarily due to declining interest rates. This impact was partially offset by a $421 million net charge from changes in the value of our hedge target and related hedge positions, primarily driven by fund underperformance relative to indices and unfavorable liability basis. Each of these items resulted in partial offsets included in the $496 million related charge to the amortization of DAC and other costs. The net charge from the impact of assumption updates and other refinements of $631 million was primarily driven by modifications to our actuarial assumptions, including updates to our lapse assumption, to reflect our review of emerging experience, future expectations and other data, and other refinements. Results also reflected the changes in the portions of the U.S. GAAP liability that are excluded from our hedge target, net of related impacts to the amortization of DAC and other costs. In addition, results included a net charge of $35 million related to prior periods. See Note 1 to the Consolidated Financial Statements for additional information.

The net loss of $4,034 million for 2013 primarily reflected a $4,333 million net charge from the change in the NPR adjustment driven by net decreases in the base embedded derivative liability before NPR, primarily reflecting the impact of favorable capital markets conditions, as well as tightening of our NPR credit spreads. In addition, results included a $231 million net charge from changes in the value of our hedge target and related hedge positions, primarily driven by fund underperformance relative to indices and an unfavorable net market impact, partially offset by favorable liability basis. Each of these items resulted in partial offsets included in the $1,161 million related benefit to the amortization of DAC and other costs. The net charge from the impact of assumption updates and other refinements of $1,533 million was primarily driven by modifications to our lapse rate assumptions to reflect our review of emerging experience, future expectations and other data, and other refinements. These updates increased expected claims significantly more than expected fees, which increased our net liability. Results also reflected the changes in the portions of the U.S. GAAP liability that are excluded from our hedge target, net of related impacts to the amortization of DAC and other costs.

For information regarding the Capital Protection Framework we use to evaluate and support the risks of our hedging program, see "—Liquidity and Capital Resources—Capital."

Retirement

Operating Results

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

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Operating results:			
Revenues	$11,821	$12,077	$6,028
Benefits and expenses	10,890	10,862	4,989
Adjusted operating income	931	1,215	1,039
Realized investment gains (losses), net, and related adjustments	255	591	(1,489)
Related charges	(1)	(4)	1
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(581)	151	(718)
Change in experience-rated contractholder liabilities due to asset value changes	490	(106)	695
	$1,094	$1,847	$(472)

Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures

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Adjusted Operating Income

2015 to 2014 Annual Comparison. Adjusted operating income decreased $284 million. Our annual reviews and updates of assumptions and other refinements had no net impact in 2015, while the results for 2014 reflected a $13 million net charge. Excluding this impact, adjusted operating income decreased $297 million, primarily driven by lower net investment results, higher general and administrative expenses, net of capitalization, and lower fee income, partially offset by more favorable reserve impacts. The decrease in net investment spread results primarily reflected lower income on non-coupon investments, lower reinvestment rates, lower income on derivatives used in portfolio management and the impact of lower mortgage loan prepayment fees, partially offset by growth in account values primarily from significant pension risk transfer transactions. The increase in general and administrative expenses, net of capitalization, was driven by business growth and costs associated with strategic initiatives. The decrease in fee income primarily reflected lower margins on full service account values and net outflows of investment-only stable value account values over the last twelve months, partially offset by higher income from longevity reinsurance account values. The more favorable reserve impacts reflected favorable mortality for pension risk transfer contracts.

2014 to 2013 Annual Comparison. Adjusted operating income increased $176 million. Our annual reviews and updates of assumptions and other refinements resulted in net charges of $13 million and $4 million for 2014 and 2013, respectively. Excluding this impact, adjusted operating income increased $185 million. The increase was primarily driven by higher net investment spread results, higher fee income and a more favorable reserve impact from case experience, partially offset by higher general and administrative expenses, net of capitalization. The increase in net investment spread results reflected higher income on non-coupon investments, the impact of crediting rate reductions and higher mortgage loan prepayment fees, partially offset by lower reinvestment rates. The increase in fee income was driven by increases in account values from the contribution of significant longevity reinsurance transactions in 2014, market appreciation and higher average investment-only stable value account values. The more favorable reserve impact from case experience reflected the impact of reserve updates for certain legacy group annuity contracts and favorable mortality for longevity reinsurance contracts. The increase in general and administrative expenses, net of capitalization, was primarily driven by an unfavorable comparative adjustment to the amortization of VOBA to reflect the impact on estimated gross profits of higher than expected lapses, as well as higher costs to support corporate initiatives and higher compensation costs.

Revenues, Benefits and Expenses

2015 to 2014 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $256 million. Premiums decreased $68 million, primarily driven by more significant group annuity transactions in 2014, partially offset by ongoing premiums assumed for longevity reinsurance contracts sold in 2015. Net investment income decreased $127 million, primarily reflecting lower income on non-coupon investments, lower reinvestment rates and lower mortgage loan prepayment fees, partially offset by growth in account values primarily from significant pension risk transfer transactions. Policy charges and fee income, asset management and service fees and other income decreased $61 million, primarily from lower fee income and lower income on derivatives used in portfolio management.

Benefits and expenses, as shown in the table above under "—Operating Results," increased $28 million. Excluding the impact of our annual reviews and updates of assumptions and other refinements, as discussed above, benefits and expenses increased $41 million. General and administrative expenses, net of capitalization, increased $38 million primarily driven by business growth and costs associated with strategic initiatives. Policyholders' benefits, including the change in policy reserves, increased $33 million driven by interest accrued on benefit reserves, partially offset by a decrease in group annuity premiums, as discussed above and favorable mortality for pension risk transfer contracts. Partially offsetting these increases was a $35 million decrease in interest credited to policyholders' account balances, primarily driven by the impact of crediting rate reductions on full service general account stable value account values.

2014 to 2013 Annual Comparison. Revenues increased $6,049 million. Premiums increased $5,896 million primarily driven by two significant group annuity transactions in 2014. This increase in premiums resulted in a corresponding increase in policyholders' benefits, as discussed below. Net investment income increased $142 million primarily reflecting higher income from higher returns on non-coupon investments and mortgage loan prepayment fees, partially offset by lower reinvestment rates. Policy charges and fee income, asset management and service fees and other income increased $11 million, primarily from higher fee income driven by significant longevity reinsurance transactions in 2014 and higher average investment-only stable value account values, as discussed above.

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Benefits and expenses increased $5,873 million. Policyholders' benefits, including the change in policy reserves, increased $5,878 million, primarily reflecting the increase in premiums discussed above. Absent this increase and the net increase from the annual reviews and updates of assumptions discussed above, benefits and expenses decreased $15 million. Interest credited to policyholders' account balances decreased $53 million, primarily reflecting the impact of crediting rate reductions on full service general account stable value account values. Partially offsetting this decrease was a $30 million increase in general and administrative expenses, net of capitalization, primarily driven by an unfavorable comparative adjustment to the amortization of VOBA, and higher costs to support corporate initiatives and higher compensation costs. In addition, the amortization of DAC increased $10 million reflecting amortization primarily related to significant pension risk transfer transactions in 2014, which is offset above in policyholders' benefits, including the change in policy reserves.

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 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 "—Asset Management."

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Full Service:			
Beginning total account value	$184,196	$173,502	$148,405
Deposits and sales	25,684	23,934	20,677
Withdrawals and benefits	(21,559)	(22,601)	(18,711)
Change in market value, interest credited and interest income and other activity	640	9,361	23,131
Ending total account value	$188,961	$184,196	$173,502
Net additions	$4,125	$1,333	$1,966
Institutional Investment Products:			
Beginning total account value	$179,641	$149,402	$141,435
Additions(1)	15,572	43,293	17,294
Withdrawals and benefits	(15,388)	(16,036)	(9,951)
Change in market value, interest credited and interest income(2)	3,476	5,833	1,081
Other(2)(3)	(3,337)	(2,851)	(457)
Ending total account value	$179,964	$179,641	$149,402
Net additions	$184	$27,257	$7,343

(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) Prior period amounts have been reclassified to conform to current period presentation.
(3) "Other" activity includes the effect of foreign exchange rate changes associated with our United Kingdom longevity reinsurance business and changes in asset balances for externally-managed accounts.

2015 to 2014 Annual Comparison. The increase in full service account values primarily reflected the impact of net additions in 2015. The increase in net additions was driven by higher large plan sales and lower large plan lapses, partially offset by higher net participant withdrawals.

The increase in institutional investment products account values reflected net additions resulting from significant pension risk transfer transactions in 2015 and a bank-owned life insurance stable value transaction in the second quarter of 2015, partially offset by net withdrawals of investment-only stable value accounts. The decrease in net additions was primarily driven by two significant longevity reinsurance transactions in 2014.

2014 to 2013 Annual Comparison. The increase in full service account values primarily reflects the impact of equity market appreciation in 2014 on the market value of customer funds. The decrease in net additions was primarily due to net participant withdrawals in 2014 compared to net participant additions in the prior year, partially offset by an increase from net plan sales.

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The increase in institutional investment products account values was primarily driven by $36.4 billion of additions resulting from significant pension risk transfer transactions in 2014, including $31.7 billion of longevity reinsurance transactions. Partially offsetting this increase was net withdrawals of investment-only stable value accounts, primarily driven by existing intermediary relationships reaching saturation levels and an increase in the number of competitors in the marketplace.

Asset Management

Operating Results

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

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Operating results:			
Revenues	$2,944	$2,840	$2,678
Expenses	2,165	2,055	1,955
Adjusted operating income	779	785	723
Realized investment gains (losses), net, and related adjustments	(4)	(10)	(6)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	50	41	90
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$825	$816	$807

Adjusted Operating Income

2015 to 2014 Annual Comparison. Adjusted operating income decreased $6 million. Higher asset management fees from growth in assets under management were more than offset by higher expenses, including distribution costs associated with higher retail sales and expenses relating to business growth initiatives. The decrease also reflected lower other related revenues, net of expenses, primarily related to lower strategic investing results.

2014 to 2013 Annual Comparison. Adjusted operating income increased $62 million. The increase primarily reflected higher asset management fees, net of expenses, from growth in assets under management. The increase also reflected higher other related revenues, net of expenses, primarily related to higher performance-based incentive fees, partially offset by lower commercial mortgage results.

Revenues and Expenses

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

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	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Revenues by type:			
Asset management fees by source:			
Institutional customers	$923	$877	$838
Retail customers(1)	764	720	631
General account	448	424	412
Total asset management fees	2,135	2,021	1,881
Incentive fees	88	91	62
Transaction fees	20	26	25
Strategic investing	30	45	52
Commercial mortgage(2)	103	100	115
Other related revenues(3)	241	262	254
Service, distribution and other revenues(4)	568	557	543
Total revenues	$2,944	$2,840	$2,678

(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 of 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 $78 million in 2015, $77 million in 2014 and $75 million in 2013.

2015 to 2014 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased $104 million. Asset management fees increased $114 million primarily as a result of higher assets under management due to positive net asset flows and market appreciation. Service, distribution and other revenues increased $11 million reflecting higher fees from certain consolidated funds, which were partially offset by higher expenses related to noncontrolling interests in these funds. Partially offsetting these increases was a $15 million decrease in strategic investing revenues, primarily reflecting a gain on the sale of an investment in the prior year.

Expenses, as shown in the table above under "—Operating Results," increased $110 million, including expenses related to business growth initiatives, commissions from higher retail sales and higher expenses related to revenues associated with certain consolidated funds, as discussed above.

2014 to 2013 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased $162 million. Asset management fees increased $140 million primarily as a result of higher assets under management due to market appreciation and positive net asset flows. Performance-based incentive fees increased $29 million primarily related to certain fixed income funds. Service, distribution and other revenues increased $14 million mainly reflecting higher fees and net investment income related to certain consolidated funds. Partially offsetting these increases was a $15 million decrease in commercial mortgage revenues, driven by the continued run off of the interim loan portfolio.

Expenses, as shown in the table above under "—Operating Results," increased $100 million, primarily driven by higher compensation costs.

Assets Under Management

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

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	December 31,		
	2015	2014	2013
	(in billions)		
Assets Under Management (at fair market value):			
Institutional customers:			
Equity	$59.9	$63.8	$63.4
Fixed income	289.9	270.0	243.8
Real estate	39.3	36.2	34.5
Institutional customers(1)	389.1	370.0	341.7
Retail customers:			
Equity	121.4	122.8	117.0
Fixed income	73.7	61.0	51.5
Real estate	2.2	2.3	2.2
Retail customers(2)	197.3	186.1	170.7
General account:			
Equity	7.4	7.7	8.9
Fixed income	367.5	368.1	347.2
Real estate	1.8	1.6	1.4
General account	376.7	377.4	357.5
Total assets under management	$963.1	$933.5	$869.9

(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.

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

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	December 31,		
	2015	2014	2013
	(in billions)		
Institutional Customers:			
Beginning Assets Under Management	$370.0	$341.7	$313.7
Net additions (withdrawals), excluding money market activity:			
Third-party	21.2	0.7	19.4
Affiliated	(4.8)	1.8	(0.4)
Total	16.4	2.5	19.0
Market appreciation (depreciation)	2.6	26.9	10.3
Other increases (decreases)(1)	0.1	(1.1)	(1.3)
Ending Assets Under Management	$389.1	$370.0	$341.7
Retail Customers:			
Beginning Assets Under Management	$186.1	$170.7	$138.7
Net additions (withdrawals), excluding money market activity:			
Third-party	0.8	4.7	4.4
Affiliated	9.2	(0.5)	1.6
Total	10.0	4.2	6.0
Market appreciation (depreciation)	1.4	11.6	26.7
Other increases (decreases)(1)	(0.2)	(0.4)	(0.7)
Ending Assets Under Management	$197.3	$186.1	$170.7
General Account:			
Beginning Assets Under Management	$377.4	$357.5	$374.6
Net additions (withdrawals), excluding money market activity:			
Third-party	0.0	0.0	0.0
Affiliated(2)	(1.1)	3.9	7.4
Total	(1.1)	3.9	7.4
Market appreciation (depreciation)	(1.5)	25.8	(2.8)
Other increases (decreases)(1)	1.9	(9.8)	(21.7)
Ending Assets Under Management	$376.7	$377.4	$357.5

(1) Includes the effect of foreign exchange rate changes, net money market activity and transfers from/(to) the Retirement segment as a result of changes in the client contract form. The impact from foreign currency fluctuations, which primarily impact the general account, resulted in losses of $1.7 billion, $13.9 billion and $21.0 billion for the years ended December 31, 2015, 2014 and 2013, respectively.

(2) General account affiliated net additions (withdrawals) includes net additions of $4.6 billion from two significant pension risk transfer transactions in the Retirement segment for the year ended December 31, 2014 and net additions of $7.9 billion for the year ended December 31, 2013 from the acquisition of the Hartford Life Business on January 2, 2013.

Strategic Investments

The following table sets forth the strategic investments of the Asset Management 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.

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	December 31,	
	2015	2014
	(in millions)	
Co-Investments:		
Real estate	$197	$277
Fixed income	166	112
Seed Investments:		
Real estate	56	32
Public equity	300	268
Fixed income	214	210
Loans Secured by Investor Equity Commitments or Fund Assets:		
Private equity secured by investor equity	42	0
Total	$975	$899

U.S. Individual Life and Group Insurance Division

Individual Life

Operating Results

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

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Operating results:			
Revenues	$5,233	$5,226	$4,620
Benefits and expenses	4,598	4,728	4,037
Adjusted operating income	635	498	583
Realized investment gains (losses), net, and related adjustments	166	1,092	(724)
Related charges	(9)	(341)	286
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$792	$1,249	$145

On January 2, 2013, we acquired the Hartford Life Business through a reinsurance transaction. The integration of the Hartford Life Business has been completed. We incurred approximately $110 million of pre-tax integration costs, inclusive of capitalized expenses, relative to expected costs of $120 million and have achieved annualized cost savings of approximately $90 million on a run rate basis, consistent with our expectations.

Adjusted Operating Income

2015 to 2014 Annual Comparison. Adjusted operating income increased $137 million. Results for 2015 reflected a net benefit of $68 million from our annual review and update of assumptions and other refinements, while results for 2014 included a $63 million net charge from these updates. In addition, the current year included $17 million of costs associated with the integration of the Hartford Life Business, while the prior year included $32 million of such costs. Excluding these impacts, adjusted operating income decreased $9 million. This decrease was primarily driven by less favorable mortality experience, inclusive of associated reserve updates and amortization, net of reinsurance, and a

lower contribution from investment results driven by lower income on non-coupon investments, partially offset by growth of our universal and term life businesses.

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2014 to 2013 Annual Comparison. Adjusted operating income decreased $85 million. Results for 2014 reflected a net charge of $63 million from our annual review and update of assumptions and other refinements, while results for 2013 included a $27 million net benefit from these updates. In addition, 2014 included $32 million of costs, associated with the integration of the Hartford Life Business, while 2013 included $51 million of such costs. Excluding these impacts, adjusted operating income decreased $13 million primarily driven by an expected unfavorable impact from unaffiliated reserve financing to support business growth, partially offset by a higher net contribution from investment results. In addition, results reflected favorable mortality experience, inclusive of associated reserve updates and amortization, net of reinsurance, and the impact of cost savings associated with the Hartford Life Business integration.

Revenues, Benefits and Expenses

2015 to 2014 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased $7 million. Excluding the impact of our annual reviews and updates of assumptions and other refinements, as discussed above, revenues increased $98 million. Net investment income increased $49 million reflecting higher invested assets resulting from business growth and higher required capital, partially offset by lower investment income from unaffiliated reserve financing activity. Premiums increased $48 million primarily driven by growth in our term life insurance business.

Benefits and expenses, as shown in the table above under "—Operating Results," decreased $130 million. Excluding the impact of our annual reviews and updates of assumptions and other refinements and costs associated with the integration of the Hartford Life Business, as discussed above, benefits and expenses increased $107 million. Policyholders' benefits and interest credited to account balances increased $214 million primarily reflecting universal life business growth and less favorable mortality experience, inclusive of associated reserve updates, net of reinsurance. Interest expense increased $17 million due to higher reserve financing costs. The amortization of DAC decreased $109 million, including the impact of changes in the estimated profitability of the business due to market performance and other experience relative to our assumptions. General and administrative expenses, net of capitalization, decreased $16 million which includes lower amortization of VOBA primarily due to less favorable mortality experience and the impact of cost savings associated with the Hartford Life Business integration.

2014 to 2013 Annual Comparison. Revenues increased $606 million. Excluding the impact from our annual reviews and updates of assumptions and other refinements, as discussed above, revenues increased $524 million. Policy charges and fees and asset management and service fees and other income increased $272 million, driven by growth in our universal life insurance business, an increase in the amortization of unearned revenue reserves and increased affiliated reserve financing activity. Net investment income increased $214 million, reflecting higher invested assets resulting from business growth and higher required capital, as well as increased unaffiliated reserve financing activity and higher income from non-coupon investments.

Benefits and expenses increased $691 million. Excluding the impact of our annual reviews and updates of assumptions and other refinements, and costs associated with the integration of the Hartford Life Business, discussed above, benefits and expenses increased $536 million. Policyholders' benefits and interest credited to account balances increased $218 million, primarily reflecting universal life insurance business growth, and unfavorable reserve updates for GMDB, partially offset by more favorable mortality experience, net of reinsurance. The amortization of DAC increased $132 million, including the impact of changes in the estimated profitability of the business due to market performance and other experience relative to our assumptions. Interest expense increased $125 million related to higher reserve financing costs.

Sales Results

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

	2015			2014			2013		
	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total
	(in millions)								
Term Life	$33	$171	$204	$36	$145	$181	$39	$157	$196
Guaranteed Universal Life(1)	31	189	220	28	121	149	35	376	411
Other Universal Life(1)	28	61	89	13	57	70	5	81	86
Variable Life	22	56	78	21	31	52	16	22	38
Total	$114	$477	$591	$98	$354	$452	$95	$636	$731

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(1) Single pay life annualized new business premiums, which include 10% of excess (unscheduled) premiums, represented approximately 17%, 10% and 36% of Guaranteed Universal Life and 7%, 8%, and 9% of Other Universal Life annualized new business premiums for the years ended December 31, 2015, 2014 and 2013, respectively.

2015 to 2014 Annual Comparison. Annualized new business premiums increased $139 million, primarily driven by pricing and other actions we have taken to enhance and diversify product sales.

2014 to 2013 Annual Comparison. Annualized new business premiums decreased $279 million primarily driven by pricing and other actions taken in 2013 to limit the concentration of sales of the universal life insurance product with secondary, or "no-lapse," guarantees and the discontinuation of the Hartford Life Business products.

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.

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Operating results:			
Revenues	$5,143	$5,357	$5,518
Benefits and expenses	4,967	5,334	5,361
Adjusted operating income	176	23	157
Realized investment gains (losses), net, and related adjustments	(1)	66	(24)
Related charges	(4)	(5)	(5)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$171	$84	$128
Benefits ratio(1):			
Group life(2)	88.7%	89.3%	88.5%
Group disability(2)	75.7%	99.8%	92.8%
Total group insurance(2)	86.6%	91.1%	89.3%
Administrative operating expense ratio(3):			
Group life	11.0%	11.1%	10.1%
Group disability	34.1%	30.2%	26.6%

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

(2) Benefits ratios reflect the impacts of our annual reviews and updates of assumptions and other refinements. Excluding these impacts, the group life, group disability and total group insurance benefits ratios were 89.2%, 79.2% and 87.5% for 2015, respectively, 89.2%, 87.0% and 88.8% for 2014, respectively, and 89.5%, 93.9% and 90.3% for 2013, respectively.

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

Adjusted Operating Income

2015 to 2014 Annual Comparison. Adjusted operating income increased $153 million, primarily reflecting favorable comparative net impacts from our annual reviews and updates of assumptions and other refinements. Results for 2015 included a $28 million net benefit from these updates related to actuarial assumptions used in calculating both group disability and group life reserves and other refinements, while results for 2014 included a $107 million net charge from these updates. Excluding the effect of these items, adjusted operating income increased $18 million primarily driven by more favorable underwriting results in our group disability business and lower expenses, partially offset by a lower contribution from net investment spread results and less favorable underwriting results in our group life business. The favorable underwriting results for our group disability business reflected the impact of higher claim resolutions and fewer new claims for long-term contracts, while the less favorable underwriting results for our group life business reflected lower premiums due to lapsed business.

2014 to 2013 Annual Comparison. Adjusted operating income decreased $134 million, primarily reflecting unfavorable comparative net impacts from our annual reviews and updates of assumptions and other refinements. Results for 2014 included a $107 million net charge from these updates, which included a $48 million net charge for certain group disability reserves related to prior periods. See Note 1 to the Consolidated Financial Statements for additional information. Results for 2013 included a $45 million net benefit from these updates. Excluding the effect of these items, adjusted operating income increased $18 million primarily driven by more favorable underwriting results in our group disability business and a higher contribution from net investment spread results, partially offset by higher expenses and less favorable underwriting results in our group life business. The more favorable underwriting results for our group disability business reflected the impact of higher claim resolutions and fewer new claims, partially offset by higher claim severity for long-term contracts. The less favorable underwriting results for the group life business reflected higher claim severity for non-experience-rated contracts, partially offset by more favorable results for experience-rated contracts.

Revenues, Benefits and Expenses

2015 to 2014 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $214 million. Excluding a favorable impact of $2 million resulting from our annual reviews and updates of assumptions and other refinements, as discussed above, revenues decreased $216 million. The decrease reflected $160 million lower premiums and policy charges and fee income in both our group life and group disability businesses primarily driven by lapses resulting from continued pricing discipline on contract renewals and improved claim experience for experience-rated contracts. Net investment income decreased $27 million driven by lower income from non-coupon investments.

Benefits and expenses, as shown in the table above under "—Operating Results," decreased $367 million. Excluding a favorable impact of $133 million resulting from our annual review and update of assumptions and other refinements, as discussed above, benefits and expenses decreased $234 million. Policyholders' benefits, including the change in reserves, decreased $198 million, driven by declines in both our group disability and group life businesses, reflecting fewer claims as a result of lapses. The decline in our group disability business also reflected the impact of higher claim resolutions for long-term contracts. The decline in our group life business also reflected improved claim experience for experience-rated contracts.

2014 to 2013 Annual Comparison. Revenues decreased $161 million. Excluding a favorable impact of $51 million resulting from our annual reviews and updates of assumptions and other refinements, as discussed above, revenues decreased $212 million. The decrease reflected $239 million lower premiums and policy charges and fee income in both our group life and group disability businesses driven by lapses resulting from continued pricing discipline on contract renewals. Partially offsetting the decrease was a $28 million increase in net investment income driven by higher income from non-coupon investments.

Benefits and expenses decreased $27 million. Excluding an unfavorable impact of $203 million resulting from our annual reviews and updates of assumptions and other refinements, as discussed above, benefits and expenses decreased $230 million. Policyholders' benefits, including the change in reserves, decreased $287 million, driven by declines in both our group life and group disability businesses, reflecting fewer claims as a result of lapses. The decline in our group life business also reflected improved claim experience for experience-rated contracts. The decline in our disability business also reflected higher claim resolutions, partially offset by higher claim severity for long-term contracts. Partially offsetting these decreases was an increase of $41 million in general and administrative expenses, including higher compensation costs, costs associated with our claims management process, and other costs to support business initiatives.

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.

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Annualized new business premiums(1):			
Group life	$204	$189	$240
Group disability	69	67	73
Total	$273	$256	$313

(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.

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2015 to 2014 Annual Comparison. Total annualized new business premiums increased $17 million primarily driven by sales to new and existing clients for our group life and group disability businesses, respectively.

2014 to 2013 Annual Comparison. Total annualized new business premiums decreased $57 million reflecting our pricing discipline efforts for both group life and group disability products.

International Insurance Division

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-equivalent shareholder return on equity. We seek to mitigate this impact through various hedging strategies, including the use of derivative contracts and by holding U.S. dollar-denominated assets in certain of our foreign subsidiaries.

The operations of our International Insurance division are subject to currency fluctuations that can materially affect our U.S. dollar-equivalent earnings from period to period, even if earnings on a local currency basis are relatively constant. We enter into forward currency derivative contracts as part of our strategy to effectively fix the currency exchange rates for a portion of our prospective non-U.S. dollar-denominated earnings streams, thereby reducing earnings volatility from foreign currency exchange rate movements. The forward currency hedging program is primarily associated with our insurance operations in Japan and Korea.

Separately, our Japanese insurance operations offer a variety of non-yen denominated products, primarily comprised of U.S. and Australian dollar-denominated products that are supported by investments in corresponding currencies. While these non-yen denominated assets and liabilities are economically matched, prior to 2015, differences in the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements resulted in volatility in reported U.S. GAAP earnings. As a result of continued growth in these portfolios, effective in the first quarter of 2015, we implemented a new structure in Gibraltar Life that disaggregated the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments.

For further information on the hedging strategies used to mitigate the risks of foreign currency exchange rate movements on earnings as well as the U.S. GAAP earnings impact from products denominated in non-local currencies, see "—Impact of foreign currency exchange rate movements on earnings."

We 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 foreign currency derivative contracts, as discussed above, as well as U.S. dollar-denominated assets and, to a lesser extent, "dual currency" and "synthetic dual currency" assets held locally in our Japanese insurance subsidiaries. We may also hedge using instruments held in our U.S. domiciled entities, such as U.S. dollar-denominated debt that has been swapped to yen. 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 U.S. dollar-equivalent shareholder return on equity from our Japanese insurance subsidiaries for the periods indicated.

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	December 31,	
	2015	2014
	(in billions)	
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent earnings:		
Forward currency hedging program(1)	$1.9	$2.0
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity:		
U.S. dollar-denominated assets held in yen-based entities(2):		
Available-for-sale U.S. dollar-denominated investments, at amortized cost	13.0	12.2
Held-to-maturity U.S. dollar-denominated investments, at amortized cost	0.0	0.1
Other	0.1	0.1
Subtotal	13.1	12.4
Yen-denominated liabilities held in U.S. dollar-based entities(3)	0.0	0.8
Dual currency and synthetic dual currency investments(4)	0.8	0.8
Total instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity	13.9	14.0
Total hedges	$15.8	$16.0

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(1) Represents the notional amount of forward currency contracts outstanding.
(2) Excludes $30.5 billion and $29.1 billion as of December 31, 2015 and 2014, respectively, of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations.
(3) The yen-denominated liabilities are reported in Corporate and Other operations.
(4) 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 U.S. dollar-denominated interest income. The amounts shown represent the present value of future U.S. dollar cash flows.

The U.S. dollar-denominated investments that hedge the U.S. dollar-equivalent 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 U.S. dollar-denominated investments reported within our yen-based Japanese insurance entities, and therefore negatively impact their equity and regulatory solvency margins, by employing internal hedging strategies between a subsidiary of Prudential Financial and these yen-based entities. These internal hedging strategies have the economic effect of moving the change in value of these U.S. dollar-denominated investments due to foreign currency exchange rate movements from our Japanese yen-based entities to our U.S. dollar-based entities.

These U.S. dollar-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 U.S. dollar-denominated investments, as well as our dual currency and synthetic dual currency investments discussed below, 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. See "—General Account Investments—Investment Results" for a discussion of the investment yields generated by our Japanese insurance operations.

Impact of foreign currency exchange rate movements on earnings

Forward currency hedging program

The financial results of our International Insurance segment reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which certain of the segment's non-U.S. dollar-denominated earnings are translated at fixed currency exchange rates. The fixed rates are determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. Pursuant to this program, 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 U.S. dollars 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-U.S. dollar-denominated earnings are expected to be generated. In establishing the level of non-U.S. dollar-denominated earnings that will be hedged through this program, we exclude the anticipated level of U.S. dollar-denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of non-yen denominated earnings that will be generated by non-yen denominated products and investments. For the twelve months ended December 31, 2015, approximately 36% of the segment's earnings were yen-based and, as of December 31, 2015, we have hedged 100%, 73% and 28% of expected yen-based earnings for 2016, 2017 and 2018, respectively. To the extent currently unhedged, our International Insurance segment's future expected U.S. dollar-equivalent of yen-based earnings will be impacted by yen exchange rate movements.

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As a result of this intercompany arrangement, our International Insurance segment's results for 2013, 2014 and 2015 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 80, 82 and 91 yen per U.S. dollar, respectively, and Korean won-denominated earnings at fixed currency exchange rates of 1160, 1150 and 1120 Korean won per U.S. dollar, respectively. Our results for 2016 will reflect the impact of translating yen-denominated earnings at a fixed currency exchange rate of 106 yen per U.S. dollar and Korean won-denominated earnings at a fixed currency exchange rate of 1100 Korean won per U.S. dollar. Since determination of the fixed currency exchange rates for each respective 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.

Results of Corporate and Other operations include any differences between the translation adjustments recorded by the segment at the fixed currency exchange rate versus the actual average rate during the period, and the 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. Results of Corporate and Other operations also include any differences between the translation adjustments recorded by the segment at the fixed currency exchange rate versus the actual average rate during the period related to currencies for which we choose not to hedge our exposure. The table below presents, for the periods indicated, the increase (decrease) to revenues and adjusted operating income for the International Insurance segment and for Corporate and Other operations, reflecting the impact of this intercompany arrangement.

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
International Insurance Segment:			
Impact of intercompany arrangement(1)	$331	$275	$222
Corporate and Other operations:			
Impact of intercompany arrangement(1)	(331)	(275)	(222)
Settlement gains (losses) on forward currency contracts	286	293	240
Net benefit (detriment) to Corporate and Other operations	(45)	18	18
Net impact on consolidated revenues and adjusted operating income	$286	$293	$240

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

As of December 31, 2015 and 2014, the notional amounts of these forward currency contracts were $2.4 billion and $2.6 billion, respectively, of which $1.9 billion and $2.0 billion, respectively, were related to our Japanese insurance operations.

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

Our international insurance operations primarily offer products denominated in local currency; however, several of our international insurance operations, most notably our Japanese operations, also offer products denominated in non-local currencies, primarily comprised of U.S. and Australian dollar-denominated products. The non-yen 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-yen 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. For example,

unrealized gains (losses) on available-for-sale investments, including those arising from non-functional currency exchange rate movements, are recorded in AOCI, whereas the non-functional currency-denominated liabilities are remeasured for foreign currency exchange rate movements, and the related changes in value are recorded in earnings within "Other income." Investments designated as held-to-maturity under U.S. GAAP are recorded at amortized cost on the balance sheet, but are remeasured for foreign currency exchange rate movements, with the related change in value recorded in earnings within "Other income." Due to this non-economic volatility that is reflected in U.S. GAAP earnings, the gains (losses) resulting from the remeasurement of these non-yen denominated liabilities, and certain related non-yen denominated assets, were excluded from adjusted operating income and included in "Realized investment gains (losses), net, and related adjustments."

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As discussed above, to minimize volatility in reported U.S. GAAP earnings arising from foreign currency remeasurement, in the first quarter of 2015 we implemented a structure in Gibraltar Life that disaggregated the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. Included in "Realized investment gains (losses), net, and related adjustments" were net gains of $63 million, net losses of $3,073 million and net losses of $3,962 million from foreign currency remeasurement for the years ended December 31, 2015, 2014 and 2013, respectively. For the U.S. and Australian dollar-denominated assets that were transferred under the new structure in Gibraltar Life, the net cumulative unrealized investment gains associated with foreign exchange remeasurement that were recorded in AOCI totaled $6.0 billion and will be recognized in earnings within "Realized investment gains (losses), net" over time as the assets mature or are sold. As of December 31, 2015, the remaining net cumulative unrealized investment gains balance related to these assets was $5.1 billion. Absent the sale of any of these assets prior to their stated maturity, approximately 9% of the $5.1 billion balance will be recognized in 2016 and approximately 8% will be recognized in 2017, with the remainder primarily recognized over the following ten years.

International Insurance

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 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 for which the net impact has been recorded within "Other income." Our results of operations, excluding the effect of foreign currency fluctuations, were derived by translating foreign currencies to U.S. dollars 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 106 yen per U.S. dollar and Korean won at a rate of 1100 won per U.S. dollar, both of which were determined in connection with the foreign currency income hedging program discussed above. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is generally reported based on the amounts as transacted in U.S. dollars. 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.

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Operating results:			
Revenues:			
Life Planner operations	$9,172	$9,267	$8,978
Gibraltar Life and Other operations	10,192	10,799	13,562
Total revenues	19,364	20,066	22,540
Benefits and expenses:			
Life Planner operations	7,587	7,678	7,461
Gibraltar Life and Other operations	8,551	9,136	11,927
Total benefits and expenses	16,138	16,814	19,388
Adjusted operating income:			
Life Planner operations	1,585	1,589	1,517
Gibraltar Life and Other operations	1,641	1,663	1,635

Total adjusted operating income	3,226	3,252	3,152
Realized investment gains (losses), net, and related adjustments(1)	1,215	(2,192)	(4,065)
Related charges	(60)	(59)	(140)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	57	188	468
Change in experience-rated contractholder liabilities due to asset value changes	(57)	(188)	(468)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	8	5	(63)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$4,389	$1,006	$(1,116)

(1) Includes gains and losses from changes in value of certain assets and liabilities relating to foreign currency exchange movements that are economically matched, as discussed above.

Adjusted Operating Income

2015 to 2014 Annual Comparison. Adjusted operating income from Life Planner operations decreased $4 million including a net unfavorable impact of $56 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods included the impact of our annual reviews and updates of assumptions and other refinements, which resulted in an $11 million net charge in 2015 compared to a $17 million net benefit in 2014. Results for 2014 also included a $24 million net unfavorable impact primarily from reserve refinements in our Korean and Japanese operations.

Excluding the effect of these items, adjusted operating income increased $56 million primarily reflecting growth of business in force driven by sales results and continued strong persistency, partially offset by the impacts of higher expenses supporting business growth, lower net investment spreads and less favorable mortality experience.

Adjusted operating income from our Gibraltar Life and Other operations decreased $22 million including a net unfavorable impact of $77 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods included the impact of our annual reviews and updates of assumptions and other refinements which resulted in a $10 million net charge in 2015 compared to a $15 million net charge in 2014. Results for 2014 also included a $73 million charge for reserve refinements, $30 million of which was related to 2014 and $43 million of which was related to prior periods. See Note 1 to the Consolidated Financial Statements for more information.

Excluding the effect of these items, adjusted operating income decreased $23 million primarily reflecting higher expenses due to business growth and the absence of gains on sales of fixed assets that occurred in 2014, partially offset by a higher contribution from net investment spreads.

2014 to 2013 Annual Comparison. Adjusted operating income from Life Planner operations increased $72 million including a net unfavorable impact of $16 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods included the impact of our annual reviews and updates of assumptions and other refinements, which resulted in a $17 million net benefit in 2014 compared to a $19 million net benefit in 2013. Results for 2014 also included a $24 million net unfavorable impact primarily from reserve refinements in our Korean and Japanese operations, compared to a $78 million charge to strengthen reserves in 2013 primarily for certain policies on a previously-acquired business.

Excluding the effect of these items, adjusted operating income increased $36 million primarily reflecting growth of business in force driven by sales results and continued strong persistency, as well as more favorable mortality experience, partially offset by higher expenses.

Adjusted operating income from our Gibraltar Life and Other operations increased $28 million including a net unfavorable impact of $39 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods included the impact of our annual reviews and updates of assumptions and other refinements which resulted in a $15 million net charge in 2014 compared to a $108 million net charge in 2013. Results for 2014 also included a $73 million charge for reserve refinements, as discussed above. Results for 2013 also included a $66 million gain on our investment, through a consortium, in China Pacific Group, for which our remaining shares were sold in January 2013, as well as $28 million of integration costs related to the acquisition of the Star and Edison Businesses and a $23 million charge for reserve refinements.

Excluding the effect of these items, adjusted operating income increased $62 million primarily reflecting higher net investment spreads, gains on sales of fixed assets that occurred in 2014, the absence of certain policyholder dividend refinements that occurred in 2013 and lower expenses. Partially offsetting these variances was a lesser impact from

accelerated earnings due to surrenders of fixed annuities denominated in Australian and U.S. dollars, as well as less favorable mortality experience.

Revenues, Benefits and Expenses

2015 to 2014 Annual Comparison. Revenues from our Life Planner operations, as shown in the table above under "—Operating Results," decreased $95 million including a net unfavorable impact of $857 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $762 million. This increase was primarily driven by higher premiums and policy charges and fee income of $547 million related to growth of business in force. Net investment income increased $158 million primarily reflecting investment portfolio growth, partially offset by the impact of lower reinvestment rates.

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Benefits and expenses from our Life Planner operations, as shown in the table above under “—Operating Results,” decreased $91 million including a net favorable impact of $801 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $710 million. Policyholder benefits, including changes in reserves, increased $520 million primarily driven by business growth. General and administrative expenses, net of capitalization, increased $116 million primarily due to higher distribution costs and other costs supporting business growth. Amortization of DAC increased $66 million, driven by business growth.

Revenues from our Gibraltar Life and Other operations decreased $607 million, including a net unfavorable impact of $928 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $321 million, driven by a $306 million increase in premiums and policy charges and fee income due to business growth, and an $89 million increase in net investment income driven by higher net investment spreads. These increases were partially offset by a decline of $57 million in other income, primarily reflecting the absence of gains on sales of fixed assets that occurred in 2014.

Benefits and expenses of our Gibraltar Life and Other operations decreased $585 million including a net favorable impact of $851 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $266 million, primarily reflecting a $272 million increase in policyholder benefits, including changes in reserves, driven by business growth.

2014 to 2013 Annual Comparison. Revenues from our Life Planner operations increased $289 million including a net unfavorable impact of $392 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $681 million. This increase was primarily driven by higher premiums and policy charges and fee income of $391 million related to growth of business in force. Net investment income increased $143 million primarily reflecting investment portfolio growth, partially offset by the impact of lower reinvestment rates.

Benefits and expenses from our Life Planner operations increased $217 million including a net favorable impact of $376 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $593 million. Policyholder benefits, including changes in reserves, increased $503 million primarily driven by business growth. These items were partially offset by favorable mortality experience and lesser comparative reserve refinements, as discussed above. General and administrative expenses, net of capitalization, increased $71 million primarily due to higher distribution costs and technology expenditures.

Revenues from our Gibraltar Life and Other operations decreased $2,763 million, including a net unfavorable impact of $316 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues decreased $2,447 million, driven by a $2,366 million decrease in premiums and policy charges and fee income. The decrease in premiums and policy charges and fee income primarily reflected the discontinuation of bank channel sales of yen-denominated single premium reduced death benefit whole life products and pricing actions taken on certain retirement and protection products in 2013, as well as lower premiums from the Life Consultant distribution channel and reserve refinements, as discussed above. The decrease in revenues also included the impact of $66 million from the sale of our investment in China Pacific Group during the first quarter of 2013, as discussed above.

Benefits and expenses of our Gibraltar Life and Other operations decreased $2,791 million including a net favorable impact of $277 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses decreased $2,514 million. Policyholder benefits, including changes in reserves, decreased $2,446 million driven by the discontinuation of bank channel sales of yen-denominated single premium reduced death benefit whole life products and pricing actions taken on certain retirement and protection products in 2013.

Sales Results

The following table sets forth annualized new business premiums, as defined under "—Segment measures" above, on an actual and constant exchange rate basis for the periods indicated.

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	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Annualized new business premiums:			
On an actual exchange rate basis:			
Life Planner operations	$1,117	$1,161	$1,128
Gibraltar Life	1,548	1,584	1,756
Total	$2,665	$2,745	$2,884
On a constant exchange rate basis:			
Life Planner operations	$1,181	$1,096	$1,034
Gibraltar Life	1,619	1,506	1,598
Total	$2,800	$2,602	$2,632

2015 to 2014 Annual Comparison. The table below presents annualized new business premiums on a constant exchange rate basis, by product and distribution channel, for the periods indicated.

	Year Ended December 31, 2015					Year Ended December 31, 2014				
	Life	Accident & Health	Retirement (1)	Annuity	Total	Life	Accident & Health	Retirement (1)	Annuity	Total
	(in millions)									
Life Planner	$729	$116	$271	$65	$1,181	$613	$100	$319	$64	$1,096
Gibraltar Life:										
Life Consultants	347	61	126	134	668	330	64	123	142	659
Banks(2)	480	1	40	180	701	418	1	10	176	605
Independent Agency	104	24	69	53	250	95	24	62	61	242
Subtotal	931	86	235	367	1,619	843	89	195	379	1,506
Total	$1,660	$202	$506	$432	$2,800	$1,456	$189	$514	$443	$2,602

(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 5% and 51%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2015, and 7% and 57%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2014.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $85 million. The increase primarily reflects growth in Life Planner headcount and productivity in our Japanese operations as well as in our Brazilian operation. The impacts resulted in an increase in sales of term life products in Japan and whole life products and accident and health products in Brazil. The increase also reflects higher sales of certain life protection products in our Korean operation.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations increased $113 million. Bank channel sales increased $96 million primarily driven by higher sales of U.S. dollar-denominated whole life and retirement products as well as certain yen-denominated life protection products. Life Consultant sales increased $9 million as higher sales of yen-denominated whole life products, U.S. dollar-denominated annuity

products and Australian dollar-denominated retirement products were mostly offset by lower sales of Australian dollar-denominated annuity products. Independent Agency sales increased $8 million primarily driven by higher sales of yen-denominated term life products and certain retirement products, partially offset by lower sales of Australian dollar-denominated annuity products.

2014 to 2013 Annual Comparison. The table below presents annualized new business premiums on a constant exchange rate basis, by product and distribution channel, for the periods indicated.

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	Year Ended December 31, 2014					Year Ended December 31, 2013				
	Life	Accident & Health	Retirement (1)	Annuity	Total	Life	Accident & Health	Retirement (1)	Annuity	Total
	(in millions)									
Life Planner	$613	$100	$319	$64	$1,096	$487	$93	$404	$50	$1,034
Gibraltar Life:										
Life Consultants	330	64	123	142	659	379	82	127	109	697
Banks(2)	418	1	10	176	605	598	1	9	91	699
Independent Agency	95	24	62	61	242	78	27	68	29	202
Subtotal	843	89	195	379	1,506	1,055	110	204	229	1,598
Total	$1,456	$189	$514	$443	$2,602	$1,542	$203	$608	$279	$2,632

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(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 7% and 57%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2014, and 37% and 47%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2013.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $62 million. Results reflected higher sales of whole life products and annuity products in our Korean operation and of whole life products and accident and health products in our Brazilian operation. These increases were partially offset by a net decline in sales in our Japanese operations where commission rate changes resulted in lower sales of certain retirement products that more than offset an increase in sales of term life products.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations decreased $92 million. Bank channel sales decreased $94 million due to the discontinuation of our yen-denominated single premium reduced death benefit whole life products in the fourth quarter of 2013, partially offset by higher sales of U.S. and Australian dollar-denominated annuity products and U.S. dollar-denominated whole life products. Life Consultant sales decreased $38 million primarily due to pricing actions taken in the second quarter of 2013 on certain retirement and protection products as well as a lower Life Consultant count, partially offset by higher sales of Australian dollar-denominated annuity products. Independent Agency sales increased $40 million primarily driven by higher sales Australian dollar-denominated annuity products.

Sales Force

The following table sets forth the number of Life Planners and Life Consultants for the periods indicated.

	As of December 31,		
	2015	2014	2013
Life Planners:			
Japan	3,528	3,328	3,258
All other countries	4,064	4,024	3,990
Gibraltar Life Consultants	8,805	8,707	9,327
Total	16,397	16,059	16,575

2015 to 2014 Comparison. The number of Life Planners increased by 240, driven by increases of 200 in Japan and 190 in Brazil as a result of recruiting efforts. Life Planner decreases in other operations, primarily in Poland and Italy, were a result of more selective recruiting efforts and validation requirements.

The number of Gibraltar Life Consultants increased by 98, primarily reflecting improved recruiting efforts and fewer terminations.

2014 to 2013 Comparison. The number of Life Planners increased by 104, driven by an increase of 140 in Brazil as a result of recruiting efforts and agency growth. Life Planner growth in Japan of 70 was offset by a decline of 73 in Korea as a result of a more stringent selection process.

The number of Gibraltar Life Consultants decreased by 620, primarily reflecting the continuation of terminating Life Consultants for not meeting minimum sales production standards as part of an ongoing competency assessment.

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Corporate and Other

Corporate and Other includes corporate items and initiatives that are not allocated to our business segments, and divested businesses excluding the Closed Block division, other than those that qualify for "discontinued operations" accounting treatment under U.S. GAAP.

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Operating results:			
Capital debt interest expense	$(731)	$(626)	$(655)
Operating debt interest expense, net of investment income	69	(126)	(140)
Pension and employee benefits	173	185	243
Other corporate activities(1)	(824)	(781)	(818)
Adjusted operating income	(1,313)	(1,348)	(1,370)
Realized investment gains (losses), net, and related adjustments	(961)	(3,656)	2,270
Related charges	19	4	(51)
Divested businesses	(66)	167	29
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	0	(2)	1
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$(2,321)	$(4,835)	$879

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(1) Includes consolidating adjustments.

2015 to 2014 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased $35 million. Operating debt interest expense, net of investment income, decreased $195 million, reflecting higher net investment income due to higher levels of invested assets, including the transfer of assets to Corporate and Other operations related to the restructuring of the former Closed Block Business and lower operating debt interest expense due to the reassignment of operating debt to capital debt. Capital debt interest expense increased $105 million, primarily reflecting the reassignment of operating debt to capital debt to support capital needs related to our living benefits hedging program described in "—Liquidity and Capital Resources—Capital Protection Framework." Net charges from other corporate activities increased $43 million, primarily reflecting increased retained corporate expenses, including $80 million of estimated remediation costs related to the administration of certain separate account investments. These remediation costs consist of compensation for the benefit of customers for performance on certain securities lending activities administered by the Company. In addition, the increased retained corporate expenses included enhanced regulatory supervision costs and a negative impact recorded in Corporate and Other operations from income translation adjustments recorded by our International Insurance segment at fixed currency exchange rates versus the actual average rates related to currencies for which we choose not to hedge our exchange rate exposure. These increases were partially offset by a favorable comparative impact from escheatment related and other items.

Results from pension and employee benefits decreased $12 million, including higher expenses from our non-qualified pension plan driven by unfavorable census and assumption updates as of December 31, 2014. This decrease was partially offset by higher income from our qualified pension plan driven by the impact of the decline in interest rates in 2014, partially offset by the negative impact of our mortality assumption update as of December 31, 2014, following the Society of Actuaries' final issuance in October 2014 of a study of mortality rates and expected future improvement in mortality rates for U.S. benefit plan participants.

For purposes of calculating pension income from our qualified pension plan for the year ended December 31, 2016, we will increase the discount rate to 4.50% from 4.10% in 2015. The expected rate of return on plan assets and the assumed rate of increase in compensation will remain unchanged at 6.25% and 4.50%, respectively. Giving effect to the foregoing assumptions and other factors, we expect income from our qualified pension plan in 2016 to be approximately $50 million to $60 million lower than 2015 levels. The decrease is driven by lower expected returns on plan assets due to lower than expected plan fixed income asset growth in 2015 as well as higher interest costs on the plan obligation due to the higher discount rate.

For purposes of calculating postretirement benefit expenses for the year ended December 31, 2016, we will increase the discount rate to 4.35% from 3.95%. The expected rate of return on plan assets will remain unchanged at 7.00%. Giving effect to the foregoing assumptions and other factors, we expect postretirement benefit expenses in 2016 to be approximately $15 million to $25 million higher than 2015 levels. The increase in expenses is driven by higher amortization of actuarial losses and lower expected returns on plan assets due to lower than expected asset growth in 2015.

In 2016, pension and other postretirement benefit service costs related to active employees will continue to be allocated to our business segments. For further information regarding our pension and postretirement plans, see Note 18 to the Consolidated Financial Statements.

2014 to 2013 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased $22 million. Net charges from other corporate activities declined $37 million, primarily reflecting reduced retained corporate expenses, including lower compensation related costs, and the absence of the accelerated recognition of deferred bond issuance costs related to capital and operating debt redeemed in 2013. These reductions were partially offset by increased costs for enhanced regulatory supervision, an unfavorable comparative impact for the change in our estimate of payments arising from use of the Social Security Master Death file matching criteria to identify both deceased policy and contractholders, and an unfavorable impact from our annual reviews and updates of assumptions on the reserves for certain retained obligations relating to pre-demutualization policyholders. Capital debt interest expense decreased $29 million, primarily driven by the replacement of higher coupon debt with new issuances at lower rates during 2013. Operating debt interest expense, net of investment income, decreased $14 million driven by higher income on higher levels of invested assets.

Results from pension and employee benefits decreased $58 million. Income from our qualified pension plan decreased $80 million driven by lower expected returns from a decline in value of fixed income plan assets and higher interest costs on the plan obligation from a higher discount rate. Additionally, an unfavorable comparative impact of retained benefit expenses, including the impact of plan amendments in 2013, contributed to the decline in pension and employee benefits results. These declines were partially offset by lower post-retirement plan expense driven by higher expected returns from an increase in value of equity plan assets and lower post-employment plan expense driven by favorable 2014 census and assumption updates.

Capital Protection Framework

Results related to our Capital Protection Framework hedging costs that are included in adjusted operating income were $19 million, $39 million and $45 million for the years ended December 31, 2015, 2014 and 2013, respectively. The lower hedge costs correspond to the relative equity market index levels at the time of hedging our equity market exposure. “Realized investment gains (losses), net and related adjustments,” which are excluded from adjusted operating income, included net losses of $673 million, net losses of $3,694 million and net gains of $2,077 million for the years ended December 31, 2015, 2014 and 2013, respectively, primarily resulting from our utilization of capital management strategies to manage a portion of our interest rate risk, and reflect changes in interest rates with respect to the exposures outstanding during the respective periods. For more information on our Capital Protection Framework, see “—Liquidity and Capital Resources—Capital Protection Framework.”

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Divested Businesses

Divested Businesses Included in Corporate and Other

Our income from continuing operations 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 businesses are reflected in our Corporate and Other operations, but are excluded from adjusted operating income. A summary of the results of the divested businesses reflected in our Corporate and Other operations is as follows for the periods indicated:

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Long-Term Care	$(67)	$171	$(34)
Residential Real Estate Brokerage Franchise and Relocation Services	(2)	2	84
Individual Health and Disability Insurance	(6)	(8)	(15)
Other	9	2	(6)
Total divested businesses income (loss) excluded from adjusted operating income	$(66)	$167	$29

Long-Term Care. Results for the year ended December 31, 2015 primarily reflected an unfavorable impact from our annual review and update of assumptions and other refinements, as well as unfavorable policy experience. Results for the year ended December 31, 2014 primarily reflected realized gains from derivatives used in duration management, driven by the impact of declining interest rates and favorable policy experience.

Residential Real Estate Brokerage Franchise and Relocation Services. Results for the year ended December 31, 2013 included pre-tax gains of $51 million from the sales of investments in real estate brokerage franchises.

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, expenses and policyholder dividends related to these policies, as well as certain related assets and liabilities. We no longer offer these traditional domestic participating policies. See Note 12 to the Consolidated Financial Statements for additional details.

Each year, the Board of Directors of Prudential Insurance 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 Prudential Insurance.

As of December 31, 2015, the excess of actual cumulative earnings over the expected cumulative earnings was $1,694 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 have been reflected as a policyholder dividend obligation of $2,815 million at December 31, 2015, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

Operating Results

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

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	Year ended December 31,		
	2015	2014	2013
	(in millions)		
U.S. GAAP results:			
Revenues	$6,160	$6,906	$6,036
Benefits and expenses	6,102	7,165	5,974
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$58	$(259)	$62

Income from Continuing Operations Before Income Taxes and Equity in Earnings of Operating Joint Ventures

2015 to 2014 Annual Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures increased $317 million, reflecting the absence of a $487 million charge representing a make-whole provision for early redemption of the IHC Debt and the cost of terminating associated interest rate swaps, $13 million of bank and legal fees related to the IHC Debt redemption and Class B Repurchase and $13 million for the acceleration of the amortization of IHC Debt issuance cost in 2014. Excluding the effects of these items, income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $196 million, reflecting a $367 million decrease in net realized investment gains primarily due to lower gains from sales of fixed maturities, less favorable changes in the value of derivatives and higher impairments of invested assets. Net investment income decreased $354 million primarily due to the sale and transfer of invested assets as a result of the restructuring of the former Closed Block Business and lower income from non-coupon investments. Net insurance activity results declined $104 million primarily reflecting the runoff of policies in force and higher dividends to policyholders as a result of an increase in the 2015 and 2016 dividend scales. General and administrative expenses, inclusive of interest expense, declined $122 million primarily driven by lower interest expense, reflecting the redemption in 2014 of the IHC Debt. As a result of the above and other variances, a $137 million increase in the policyholder dividend obligation was recorded in 2015, compared to a $671 million increase in 2014. As noted above, as of December 31, 2015, the excess of actual cumulative earnings over the expected cumulative earnings was $1,694 million. 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 policyholder dividend obligation. For a discussion of Closed Block division realized investment gains (losses), net, see "—Realized Investment Gains and Losses."

2014 to 2013 Annual Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $321 million. Results for 2014 included a $487 million charge representing a make-whole provision for early redemption of the IHC Debt and the cost of terminating associated interest rate swaps, $13 million of bank and legal fees related to the IHC Debt redemption and Class B Repurchase and $13 million for the acceleration of the amortization of IHC Debt issuance cost. Excluding the effects of these items, income from continuing operations before income taxes and equity in earnings of operating joint ventures increased $192 million, reflecting a $968 million increase in net realized investment gains, reflecting favorable changes in the value of derivatives and higher trading gains on fixed maturities and equity securities. Net insurance activity results declined $72 million primarily reflecting higher dividends to policyholders as a result of an increase in the 2014 and 2015 dividend scales. The value of trading account assets declined $22 million primarily due to foreign currency translation losses on fixed maturities. As a result of the above and other variances, a $671 million increase in the policyholder dividend obligation was recorded in 2014, compared to a $2 million increase in 2013.

Revenues, Benefits and Expenses

2015 to 2014 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $746 million, primarily driven by a $354 million decrease in net investment income and a $328 million decrease in net realized investment gains, as discussed above. The $328 million decrease in net realized investment gains included the absence of $39 million realized loss from termination of interest rate swaps related to the early redemption of the IHC Debt in 2014. In addition, premiums declined $35 million, primarily due to the runoff of policies in force.

Benefits and expenses, as shown in the table above under "—Operating Results," decreased $1,063 million, primarily driven by a $596 million decrease in general and administrative expenses, inclusive of interest expense, including the absence of a $448 million charge on a make-whole provision for early redemption of the IHC Debt, $13 million of bank and legal fees related to the IHC Debt redemption and Class B Repurchase and $13 million for the acceleration of the amortization of IHC Debt issuance cost in 2014, as discussed above. Dividends to policyholders decreased $505 million, reflecting a decrease in the policyholder dividend obligation expense due to changes in cumulative earnings, partially offset by an increase in dividends paid and accrued to policyholders as a result of an increase in the 2015 and 2016 dividend scales.

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2014 to 2013 Annual Comparison. Revenues increased $870 million, primarily driven by a $929 million increase in net realized investment gains, partially offset by a $24 million decline in premiums, as discussed above. The $929 million increase in net realized investment gains included a $39 million realized loss from termination of interest rate swaps related to the early redemption of the IHC Debt.

Benefits and expenses increased $1,191 million, primarily driven by a $725 million increase in dividends to policyholders, reflecting an increase in the policyholder dividend obligation expense due to changes in cumulative earnings and an increase in dividends paid and accrued to policyholders as a result of an increase in the 2014 and 2015 dividend scales, partially offset by the runoff of policies in force. General and administrative expenses, inclusive of interest expense, increased $474 million, including a $448 million charge on a make-whole provision for early redemption of the IHC Debt, $13 million of bank and legal fees related to the IHC Debt redemption and Class B Repurchase and $13 million for the acceleration of the amortization of IHC Debt issuance cost, as discussed above.

Income Taxes

Shown below is our income tax provision for the years ended December 31, 2015, 2014 and 2013, separately reflecting the impact of certain significant items.

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Tax provision (benefit)	$2,072	$349	$(1,058)
Impact of:			
Non-taxable investment income	341	381	319
Foreign taxes at other than U.S. rate	51	(146)	38
Low income housing and other tax credits	116	127	105
Reversal of acquisition opening balance sheet deferred tax items	0	(53)	(55)
Change in repatriation assertion	3	(32)	0
Minority interest	24	19	37
Medicare Part D	10	(3)	43
Change in law: active financing exception	108	0	2
Other	(6)	(26)	(20)
Tax provision (benefit) excluding these items	$2,719	$616	$(589)

2015 to 2014 Annual Comparison. Our income tax provision, on a consolidated basis, amounted to an income tax expense of $2,072 million in 2015 compared to an expense of $349 million in 2014. The increased expense was primarily due to an increase in "Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures" in 2015 compared to 2014. In addition, during the fourth quarter of 2014, we changed the repatriation assertion for our Japanese insurance companies with respect to post-2013 operating earnings and AOCI, except realized and unrealized capital gains and losses. On March 31, 2015, the government of Japan enacted an approximately two percentage points reduction in the Japanese tax rate, effective April 1, 2015. Our income tax provision for 2015 reflects a tax benefit from the lower Japan tax rate for indefinitely reinvested earnings of our Japanese insurance operations, partially offset by $75 million of additional tax expense related to the revaluation of Japan's deferred tax asset. In addition, in December 2015, Congress enacted legislation renewing the Active Financing Exception ("AFE"), retroactive to January 1, 2015 and making the provision a permanent part of the U.S. tax code. As a result of the change in tax law, deferred tax liabilities associated with Prudential of Korea's and Prudential of Taiwan's unrealized investment gains were reversed in the fourth quarter of 2015, and an additional tax benefit of $108 million was reflected in our income tax provision for 2015.

Our income tax provision related to foreign operations, on a consolidated basis, amounted to an income tax expense of $742 million in 2015 compared to an income tax benefit of $456 million in 2014. The foreign operations income tax expense increased primarily due to the increase in foreign operations pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures partially offset by the impact of tax rate changes in Japan during 2014 and 2015.

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2014 to 2013 Annual Comparison. Our income tax provision, on a consolidated basis, amounted to an income tax expense of $349 million in 2014 compared to a benefit of $1,058 million in 2013. Our income tax provision for 2014 and 2013 included $53 million and $55 million, respectively, of an additional U.S. tax expense related to the realization of a portion of the local deferred tax assets existing on the opening day balance sheet for the Star and Edison Businesses and Prudential Gibraltar Financial Life Insurance Company, Ltd. ("Prudential Gibraltar"). The local utilization of the deferred tax asset coupled with the repatriation assertion related to the applicable earnings of our Japanese entities creates the effect of a "double tax" for U.S. GAAP purposes, even though the tax will only be paid once. In addition, the U.S. tax expense for 2014 reflected a change in repatriation assertion for our Japanese insurance companies, as described above, and as a result, foreign taxes at other than the U.S. rate for 2014 reflected the lower local country rate for permanently reinvested earnings of our Japanese insurance operations. The U.S. tax expense for 2013 reflected a change in repatriation assertion for Gibraltar Life and Prudential Gibraltar. During 2013, we determined that in addition to U.S. GAAP earnings, we would repatriate an additional amount from Gibraltar Life and Prudential Gibraltar, but that such additional amount would not exceed the deferred tax assets recorded in the Statement of Financial Position as of the acquisition date for Prudential Gibraltar and the Star and Edison Businesses. Excluding the impact of the "double tax" and the 2014 change in repatriation assertion for our Japanese insurance companies, the 2014 income tax expense increased primarily due to the increase in "Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures".

Our income tax provision related to foreign operations, on a consolidated basis, amounted to an income tax benefit of $456 million in 2014 compared to an income tax benefit of $826 million in 2013. Our foreign operations income tax provision for 2013 included $108 million of an additional tax expense from the re-measurement of deferred tax liabilities resulting from the Japan corporate income tax rate reduction. However, since the 2013 earnings of our Japanese operations were treated as being subject to repatriation, our domestic tax provision in 2013 included $108 million of an additional tax benefit resulting from the increase or decrease in the future foreign tax credit benefit and, as a result, the reduction in the Japan corporate tax rate had no impact on our overall income tax provision in 2013. Excluding the impact from the Japan corporate income tax rate reduction, the foreign operations income tax benefit decreased primarily due to the decrease in foreign operations pre-tax loss from continuing operations before income taxes and equity in earnings of operating joint ventures.

We employ various tax strategies, including strategies to minimize the amount of taxes resulting from realized capital gains. For additional information regarding income taxes, see Note 19 to the Consolidated Financial Statements.

Discontinued Operations

Included within net income are the results of businesses that are reflected as discontinued operations under U.S. GAAP. Income (loss) from discontinued operations, net of taxes, was $0 million, $12 million and $7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Experience-Rated Contractholder Liabilities,
Trading Account Assets Supporting Insurance 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 classified as trading and are carried at fair value. These trading investments are reflected on the statements of financial position as "Trading account assets supporting insurance liabilities, at fair value" ("TAASIL"). Realized and unrealized gains (losses) for these investments are reported in "Other income." 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 statement of financial position as

"Other long-term investments" 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 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 TAASIL 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. 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.

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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 TAASIL, 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:

	Year ended December 31,		
	2015	2014	2013
	(in millions)		
Retirement Segment:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$(581)	$151	$(718)
Derivatives	138	(32)	52
Commercial mortgages and other loans	4	12	(2)
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	490	(106)	695
Net gains (losses)	$51	$25	$27
International Insurance Segment:			
Investment gains (losses) on trading account assets supporting insurance liabilities, net	$57	$188	$468
Change in experience-rated contractholder liabilities due to asset value changes	(57)	(188)	(468)
Net gains (losses)	$0	$0	$0
Total:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$(524)	$339	$(250)
Derivatives	138	(32)	52
Commercial mortgages and other loans	4	12	(2)
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	433	(294)	227
Net gains (losses)	$51	$25	$27

(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 $15 million, $2 million and $26 million as of December 31, 2015, 2014 and 2013, 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 decreases of $64 million, $1 million and $58 million for the years ended

December 31, 2015, 2014 and 2013, 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 trading account assets supporting insurance 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 mortgage and other loans and the amortized cost, less any valuation allowance, of these loans, as described above.

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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 20 to the 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 12 to the Consolidated Financial Statements for further information on the Closed Block.

	As of December 31, 2015				As of December 31, 2014			
	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	$252,528	$ 4,598	$37,795	$ 1,022	$255,424	$ 4,655	$43,666	$ 1,011
Trading account assets:								
Fixed maturities	29,091	840	176	0	26,965	550	198	0
Equity securities	2,240	537	112	52	2,139	555	152	108
All other(2)	3,361	5	0	0	1,683	7	0	0
Subtotal	34,692	1,382	288	52	30,787	1,112	350	108
Equity securities, available-for-sale	6,547	264	2,727	2	6,339	272	3,522	3
Commercial mortgage and other loans	274	0	0	0	380	0	0	0
Other long-term investments	1,172	957	423	423	1,441	1,216	331	331
Short-term investments	6,270	0	1,217	0	5,898	0	1,837	0
Cash equivalents	13,143	0	1,065	0	10,647	0	1,198	0
Other assets	16	7	0	0	115	2	0	0
Subtotal excluding separate account assets	314,642	7,208	43,515	1,499	311,031	7,257	50,904	1,453
Separate account assets	285,570	27,656	0	0	296,435	24,662	0	0
Total assets	$600,212	$ 34,864	$43,515	$ 1,499	$607,466	$ 31,919	$50,904	$ 1,453
Future policy benefits	$8,434	$ 8,434	$0	$ 0	$8,182	$ 8,182	$0	$ 0
Other liabilities(2)	32	2	1	0	228	5	0	0
	8,597	8,597	0	0	6,033	6,033	0	0

Notes issued by consolidated variable interest entities ("VIEs")								
Total liabilities	$17,063	$17,033	$1	$0	$14,443	$14,220	$0	$0

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5.8% and 5.3% as of December 31, 2015 and 2014, respectively, for PFI excluding the Closed Block division, and 3.4% and 2.9% as of December 31, 2015 and 2014, respectively, for the Closed Block division.

(2) "All other" and "Other liabilities" primarily include derivatives. The amounts classified as Level 3 exclude the impact of netting.

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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 internally-developed valuation model uses 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 $4.3 billion of public fixed maturities as of December 31, 2015 with values primarily based on indicative broker quotes, and approximately $1.2 billion of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific credit 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 impact our determination of fair value for fixed maturity and equity securities has on our results of operations is dependent on our classification of the security as either trading, available-for-sale, or held-to-maturity. For our investments classified as trading, the impact of changes in fair value is recorded within "Other income." For our investments classified as available-for-sale, the impact of changes in fair value is recorded as an unrealized gain or loss in AOCI, a separate component of equity. Our investments classified as held-to-maturity are carried at amortized cost.

Other Long-Term Investments

Other long-term investments classified in Level 3 primarily include fund investments where the fair value option has been elected. These fair values are primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments are included within Level 3. Investments in these funds for PFI excluding the Closed Block division included in Level 3 totaled approximately $1.0 billion as of December 31, 2015.

Separate Account Assets

Separate account assets included in Level 3 primarily include real estate investments. The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model. The appraisals also include replacement cost estimates and recent sales data as alternate methods of fair value. These appraisals and the related assumptions are updated at least annually. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within separate account assets are reflected within Level 3. 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 GMAB,

GMWB and 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 assessed 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 $8.4 billion as of December 31, 2015. For additional information, see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities."

Notes Issued by Consolidated VIEs

As discussed in Note 5 to the Consolidated Financial Statements, notes issued by consolidated VIEs represent non-recourse notes issued by certain asset-backed investment vehicles, primarily collateralized loan obligations, which we are required to consolidate. We have elected the fair value option for these notes, which are valued based on broker quotes.

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For additional information about the key estimates and assumptions used in our determination of fair value, see Note 20 to the Consolidated Financial Statements.

Realized Investment Gains and Losses

Realized investment gains and losses are generated from numerous sources, including the following significant items:

- sale of investments;
- maturities of foreign denominated investments;
- adjustments to the cost basis of investments for OTTI;
- recognition of OTTI in earnings for foreign denominated securities that are approaching maturity and are in an unrealized loss position due to foreign currency exchange rate movements;
- prepayment premiums received on private fixed maturity securities;
- net changes in the allowance for losses, certain restructurings and foreclosures on commercial mortgage and other loans; and
- fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment.

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. For additional information regarding our policies regarding OTTI for fixed maturity and equity securities, see Note 2 to the Consolidated Financial Statements.

We use interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. We use derivative contracts to mitigate the risk that unfavorable changes in currency exchange rates will materially affect U.S. dollar-equivalent earnings generated by certain of our non-U.S. businesses. We also use equity-based and interest rate derivatives to hedge a portion of the risks embedded in certain variable annuity products with optional living benefit guarantees. Many of these derivative contracts do not qualify for hedge accounting and, consequently, we recognize the changes in fair value of such contracts from period to period in current earnings, although we do not necessarily account for the related assets or liabilities the same way.

Accordingly, realized investment gains and losses from our derivative activities can contribute significantly to fluctuations in net income. For a further discussion of optional living benefit guarantees and related hedge positions in our Individual Annuities segment, see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities" above.

Adjusted operating income generally excludes "Realized investment gains (losses), net," subject to certain exceptions. These exceptions primarily include realized investment gains or losses within certain of our businesses for which such gains or losses are a principal source of earnings, gains or losses associated with terminating hedges of foreign currency earnings and current period yield adjustments, and related charges and adjustments. OTTI, interest rate related losses and credit related losses on sales (other than those related to certain of our businesses which primarily originate investments for sale or syndication to unrelated investors) are excluded from adjusted operating income.

The following table sets forth "Realized investment gains (losses), net," by investment type as well as related charges and adjustments for the periods indicated. For additional details regarding adjusted operating income, see Note 22 to the Consolidated Financial Statements.

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	Year Ended December 31,		
	2015	2014	2013
	(in millions)		
Realized investment gains (losses), net:			
PFI excluding Closed Block division	$3,192	$475	$(5,438)
Closed Block division	833	1,161	232
Consolidated realized investment gains (losses), net	$4,025	$1,636	$(5,206)
PFI excluding Closed Block Division:			
Realized investment gains (losses), net:			
Fixed maturity securities	$1,431	$753	$(213)
Equity securities	4	81	130
Commercial mortgage and other loans	36	79	72
Derivative instruments	1,775	(445)	(5,488)
Other	(54)	7	61
Total	$3,192	$475	$(5,438)
Related adjustments	(934)	(4,063)	(4,518)
Realized investment gains (losses), net, and related adjustments	2,258	(3,588)	(9,956)
Related charges	(679)	(542)	1,807
Realized investment gains (losses), net, and related charges and adjustments	$1,579	$(4,130)	$(8,149)
Closed Block Division:			
Realized investment gains (losses), net:			
Fixed maturity securities	$203	$441	$120
Equity securities	447	431	314
Commercial mortgage and other loans	1	31	7
Derivative instruments	195	263	(200)
Other	(13)	(5)	(9)
Total	$833	$1,161	$232

2015 to 2014 Annual Comparison

PFI excluding Closed Block Division

Net realized investment gains were $3,192 million in 2015, compared to net realized investment gains of $475 million in 2014.

Net realized gains on fixed maturity securities were $1,431 million in 2015, compared to net realized gains of $753 million in 2014, as set forth in the following table:

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	Year Ended December 31,	
	2015	2014
	(in millions)	
Realized investment gains (losses), net—Fixed Maturity Securities—PFI excluding Closed Block Division		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$1,729	$1,063
Private bond prepayment premiums	80	91
Total gross realized investment gains	1,809	1,154
Gross realized investment losses:		
Net OTTI recognized in earnings(2)	(97)	(36)
Gross losses on sales and maturities(1)	(273)	(327)
Credit related losses on sales	(8)	(38)
Total gross realized investment losses	(378)	(401)
Realized investment gains (losses), net—Fixed Maturity Securities	$1,431	$753
Net gains (losses) on sales and maturities—Fixed Maturity Securities(1)	$1,456	$736

(1) Amounts exclude prepayment premiums, OTTI, and credit related losses through sales of investments pursuant to our credit risk objectives.

(2) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.

Net gains on sales and maturities of fixed maturity securities were $1,456 million in 2015 primarily due to net gains of $511 million on sales and maturities of U.S. dollar-denominated securities within our International Insurance segment, and gains of $852 million associated with foreign exchange remeasurement on assets that were transferred under the new structure in Gibraltar Life and will be recognized in earnings over time as these assets mature or are sold. See "—Results of Operations by Segment—International Insurance Division" above. These gains were partially offset by OTTI of $97 million. Net gains on sales and maturities of fixed maturity securities of $736 million in 2014 were primarily due to sales and maturities of U.S. dollar-denominated securities within our International Insurance segment. These gains were partially offset by OTTI of $36 million. See below for information regarding the OTTI of fixed maturity securities in 2015 and 2014.

Net realized gains on equity securities were $4 million and $81 million for the years ended 2015 and 2014, respectively, primarily driven by gains on sales within our International Insurance segment. These gains were partially offset by OTTI of $111 million and $26 million for the years ended 2015 and 2014, respectively. See below for additional information regarding the OTTI of equity securities in 2015 and 2014.

Net realized gains on commercial mortgage and other loans for the year ended 2015 were $36 million, primarily driven by servicing revenue of $31 million in our Asset Management business and a net decrease in the allowance for losses of $5 million. Net realized gains on commercial mortgage and other loans were $79 million for the year ended 2014 were primarily driven by a net decrease in the allowance for losses of $65 million, including the impact of assumption updates. For additional information regarding our commercial mortgage and other allowance for losses, see "—General Account Investments—Commercial Mortgage and Other Loans—Commercial Mortgage and Other Loan Quality" below.

Net realized gains on derivatives were $1,775 million in 2015, compared to net realized losses of $445 million in 2014. The net gains in 2015 primarily reflect $995 million of gains on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts, $326 million of gains on interest rate derivatives used to manage duration as interest rates decreased, $345 million of gains on foreign currency derivatives used to hedge foreign denominated investments as the U.S. dollar strengthened against various currencies, and $159 million of gains primarily representing fees earned on fee-based synthetic guaranteed investment contracts ("GICs") which are accounted for as derivatives. The net derivative losses in 2014 primarily reflect net losses of $2,627 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts. Also, contributing were net losses of $500 million on foreign currency derivatives used to hedge portfolio assets in our Japan business, primarily due to the weakening of the Japanese yen against the U.S. dollar and other currencies. These losses were partially offset by gains of $1,502 million on interest rate derivatives used to manage duration as long-term interest rates decreased, $869 million gains on other foreign currency derivatives primarily associated with hedges of portfolio assets in our U.S. business and hedges of future income of non-U.S. businesses (predominantly in Japan) as the U.S. dollar strengthened against various currencies, and $166 million gains of fees earned on fee-based synthetic GICs.

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Net realized losses within other investments were $54 million in 2015 primarily driven by OTTI of $121 million on investments in limited partnerships, partially offset by gains of $40 million, on sales of real estate. Net realized gains on other investments were $7 million in 2014 and included net gains of $28 million, primarily from our Asset Management and International Insurance segments, partially offset by OTTI of $21 million on real estate and joint ventures and partnership investments.

Related adjustments include the portions of "Realized investment gains (losses), net" that are included in adjusted operating income and the portions of "Other income" 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 2015 include net negative related adjustments of $934 million driven by settlements on interest rate and currency derivatives. Results for 2014 included net negative related adjustments of $4,063 million driven by the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japan insurance operations and by settlements on interest rate and currency derivatives. We implemented a structure in Gibraltar Life, effective for financial reporting beginning in the first quarter of 2015, which has minimized volatility in reported U.S. GAAP earnings arising from foreign currency remeasurement. For additional information, see "—Results of Operations by Segment—International Insurance Division" above.

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 2015 include net related charges of $679 million, compared to net related charges of $542 million in 2014. Both periods' results were driven by the impact of derivative activity on the amortization of DAC and other costs and certain policyholder reserves. For additional information, see Note 22 to the Consolidated Financial Statements.

During 2015, we recorded OTTI of $329 million in earnings, compared to $83 million in 2014. The following tables set forth, for the periods indicated, the composition of OTTI recorded in earnings attributable to the PFI excluding the Closed Block division by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2015	2014
	(in millions)	
OTTI recorded in earnings—PFI excluding Closed Block Division(1)		
Public fixed maturity securities	$31	$22
Private fixed maturity securities	66	14
Total fixed maturity securities	97	36
Equity securities	111	26
Other invested assets(2)	121	21
Total	$329	$83

(1) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.
(2) Includes OTTI relating to investments in joint ventures and partnerships and real estate investments.

	Year Ended December 31,	
	2015	2014
	(in millions)	
OTTI on fixed maturity securities recorded in earnings—PFI excluding Closed Block Division(1)		

Due to credit events or adverse conditions of the respective issuer(2)	$82	$24
Due to other accounting guidelines(3)	15	12
Total	$97	$36

(1) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.

(2) 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.

(3) Primarily represents circumstances where securities with losses from foreign currency exchange rate movements approach maturity.

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Fixed maturity security OTTI in 2015 were concentrated in the industrial other, consumer cyclical, and energy sectors within corporate securities. These OTTI were primarily related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity security OTTI in 2014 were concentrated in the utility, consumer cyclical, and finance sectors within corporate securities. These OTTI were primarily related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

Equity security OTTI in 2015 and 2014 were primarily due to the extent and duration of declines in values.

Other invested assets OTTI in 2015 were primarily driven by the extent and duration of declines in values of investments in limited partnerships within the energy, finance, and utility sectors. Other invested assets OTTI in 2014 were primarily driven by the extent and duration of declines in values of investments in limited partnerships.

Closed Block Division

Net realized investment gains were $833 million and $1,161 million for the years ended 2015 and 2014, respectively.

Net realized gains on fixed maturity securities were $203 million and $441 million in 2015 and 2014, as set forth in the following table:

	Year Ended December 31,	
	2015	2014
	(in millions)	
Realized investment gains (losses), net—Fixed Maturity Securities—Closed Block Division		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 237	$ 471
Private bond prepayment premiums	69	39
Total gross realized investment gains	306	510
Gross realized investment losses:		
Net OTTI recognized in earnings(2)	(44)	(20)
Gross losses on sales and maturities(1)	(57)	(37)
Credit related losses on sales	(2)	(12)
Total gross realized investment losses	(103)	(69)
Realized investment gains (losses), net—Fixed Maturity Securities	$ 203	$ 441
Net gains (losses) on sales and maturities—Fixed Maturity Securities(1)	$ 180	$ 434

(1) Amounts exclude prepayment premiums, OTTI, and credit related losses through sales of investments pursuant to our credit risk objectives.

(2) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.

Net realized gains on equity securities were $447 million and $431 million for the years ended 2015 and 2014, respectively, resulting from net gains on sales of equity securities of $462 million and $437 million, respectively, partially offset by OTTI of $15 million and $6 million, respectively. See below for additional information regarding the OTTI of equity securities in 2015 and 2014.

Net realized gains on commercial mortgage and other loans were $1 million and $31 million for the years ended 2015 and 2014, respectively. Net realized gains on commercial mortgage and other loans of $31 million for the year ended

2014 were primarily driven by a net decrease in the allowance for losses of $32 million, including the impact of assumption updates. For additional information regarding our allowance for losses, see "—General Account Investments—Commercial Mortgage and Other Loans—Commercial Mortgage and Other Loan Quality" below.

Net realized gains on derivatives were $195 million and $263 million in 2015 and 2014, respectively. The net gains in 2015 primarily reflect $193 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar strengthened against various currencies. Derivative gains in 2014 primarily reflect net gains of $182 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar strengthened against the euro; net gains of $72 million on interest rate derivatives primarily used to manage duration as long term interest rates decreased; and net gains of $45 million on "to be announced" ("TBA") forward contracts as interest rates declined. These gains are partially offset by losses of $41 million on terminated capital cash flow hedges due to debt extinguishment.

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During 2015, we recorded OTTI of $80 million in earnings, compared to OTTI of $31 million recorded in earnings in 2014. The following tables set forth, for the periods indicated, the composition of OTTI recorded in earnings attributable to the Closed Block division by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2015	2014
	(in millions)	
OTTI recorded in earnings—Closed Block Division(1)		
Public fixed maturity securities	$ 9	$ 13
Private fixed maturity securities	35	7
Total fixed maturity securities	44	20
Equity securities	15	6
Other invested assets(2)	21	5
Total	$ 80	$ 31

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(1) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.
(2) Includes OTTI relating to investments in joint ventures and partnerships.

	Year Ended December 31,	
	2015	2014
	(in millions)	
OTTI on fixed maturity securities recorded in earnings—Closed Block Division(1)		
Due to credit events or adverse conditions of the respective issuer(2)	$ 41	$ 19
Due to other accounting guidelines	3	1
Total	$ 44	$ 20

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(1) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.
(2) 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.

Fixed maturity security OTTI in 2015 were concentrated in the industrial other, foreign government, and consumer cyclical sectors within corporate securities. Fixed maturity security OTTI in 2014 were concentrated in the consumer cyclical and foreign government securities sectors within corporate securities and in asset-backed securities collateralized by sub-prime mortgages. In both periods these OTTI primarily reflect adverse financial conditions of the respective issuers.

Equity security OTTI in 2015 and 2014 were primarily due to circumstances where the decline in value was maintained for one year or greater or due to the extent and duration of declines in values.

Other invested assets OTTI in 2015 were primarily driven by the extent and duration of declines in values of investments in limited partnerships within the energy sector. Other invested assets OTTI in 2014 were primarily

driven by the extent and duration of declines in values of investments in limited partnerships.

2014 to 2013 Annual Comparison

PFI excluding Closed Block Division

Net realized investment losses were $475 million in 2014, compared to net realized investment losses of $5,438 million in 2013.

Net realized gains on fixed maturity securities were $753 million in 2014, compared to net realized losses of $213 million in 2013, as set forth in the following table:

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	Year Ended December 31,	
	2014	2013
	(in millions)	
Realized investment gains (losses), net—Fixed Maturity Securities—PFI excluding Closed Block Division		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 1,063	$ 1,172
Private bond prepayment premiums	91	66
Total gross realized investment gains	1,154	1,238
Gross realized investment losses:		
Net OTTI recognized in earnings(2)	(36)	(150)
Gross losses on sales and maturities(1)	(327)	(1,270)
Credit related losses on sales	(38)	(31)
Total gross realized investment losses	(401)	(1,451)
Realized investment gains (losses), net—Fixed Maturity Securities	$ 753	$ (213)
Net gains (losses) on sales and maturities—Fixed Maturity Securities(1)	$ 736	$ (98)

(1) Amounts exclude prepayment premiums, OTTI, and credit related losses through sales of investments pursuant to our credit risk objectives.

(2) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.

Net gains on sales and maturities of fixed maturity securities of $736 million in 2014 were primarily due to sales and maturities of U.S. dollar-denominated securities within our International Insurance segment. Net losses on sales and maturities of fixed maturity securities of $98 million in 2013 were primarily driven by losses on sales of securities due to changes in interest rates subsequent to the acquisition of securities that were sold, partially offset by gains on sales within our International Insurance segment initiated for purposes of duration management as well as from surrenders of fixed annuities denominated in Australian and U.S. dollars. See below for additional information regarding the OTTI of fixed maturity securities in 2014 and 2013.

Net realized gains on equity securities were $81 million and $130 million for the years ended 2014 and 2013, respectively, driven by gains on sales, primarily within our International Insurance segment, of $107 million and $142 million, respectively. These gains were partially offset by OTTI of $26 million and $12 million for the years ended 2014 and 2013, respectively. See below for additional information regarding the OTTI of equity securities in 2014 and 2013.

Net realized gains on commercial mortgage and other loans for the year ended 2014 were $79 million, primarily driven by a net decrease in the allowance for losses of $65 million, including the impact of assumption updates. Net realized gains on commercial mortgage and other loans were $72 million for the year ended in 2013, were primarily driven by a net decrease in the allowance for losses of $38 million, mostly driven by payoffs and quality rating upgrades. For additional information regarding our commercial mortgage and other allowance for losses, see "—General Account Investments—Commercial Mortgage and Other Loans—Commercial Mortgage and Other Loan Quality" below.

Net realized losses on derivatives were $445 million in 2014, compared to net realized losses of $5,488 million in 2013. The net derivative losses in 2014 primarily reflect net losses of $2,627 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts. Also contributing were net losses of $500 million on foreign currency derivatives used to hedge portfolio assets in our Japan business,

primarily due to the weakening of the Japanese yen against the U.S. dollar and other currencies. These losses were partially offset by gains of $1,502 million on interest rate derivatives used to manage duration as long-term interest rates decreased; $869 million gains on other foreign currency derivatives primarily associated with hedges of portfolio assets in our U.S. business and hedges of future income of non-U.S. businesses (predominantly in Japan) as the U.S. dollar strengthened against various currencies; and $166 million gains of fees earned on fee-based synthetic GICs which are accounted for as derivatives. The net derivative losses in 2013 primarily reflect net losses of $4,195 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts as well as net mark-to-market losses of $987 million on interest rate derivatives used to manage duration as long-term interest rates increased. Also contributing were net losses $794 million on foreign currency derivatives used to hedge portfolio assets in our Japan business, primarily due to the weakening of the Japanese yen against the U.S. dollar and other currencies. Partially offsetting these losses were net gains of $472 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, predominantly in Japan, due to the strengthening of the U.S. dollar against the Japanese yen.

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Net realized gains on other investments were $7 million in 2014 and included net gains of $28 million, primarily from our Asset Management and International Insurance segments, partially offset by OTTI of $21 million on real estate and joint ventures and partnership investments. Net realized gains on other investments were $61 million in 2013 and included net gains of $73 million, primarily within our Corporate and Other segment, partially offset by OTTI of $12 million on real estate and joint ventures and partnership investments.

Related adjustments for 2014 included net negative related adjustments of $4,063 million, compared to net negative related adjustments of $4,518 million for 2013. Results for both periods were driven by the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations, as discussed above, and by settlements on interest rate and currency derivatives.

Related charges for 2014 included net related charges of $542 million, compared to net related benefits of $1,807 million in 2013. Both periods' results were driven by the impact of derivative activity on the amortization of DAC and other costs and certain policyholder reserves.

During 2014, we recorded OTTI of $83 million in earnings, compared to $174 million in 2013. The following tables set forth, for the periods indicated, the composition of OTTI recorded in earnings attributable to the PFI excluding the Closed Block division by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2014	2013
	(in millions)	
OTTI recorded in earnings—PFI excluding Closed Block Division(1)		
Public fixed maturity securities	$22	$111
Private fixed maturity securities	14	39
Total fixed maturity securities	36	150
Equity securities	26	12
Other invested assets(2)	21	12
Total	$83	$174

(1) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.
(2) Includes OTTI relating to investments in joint ventures and partnerships and real estate investments.

	Year Ended December 31,	
	2014	2013
	(in millions)	
OTTI on fixed maturity securities recorded in earnings—PFI excluding Closed Block Division(1)		
Due to credit events or adverse conditions of the respective issuer(2)	$24	$(80)
Due to other accounting guidelines(3)	12	(70)
Total	$36	$(150)

(1) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.
(2)

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.

(3) Primarily represents circumstances where securities with losses from foreign currency exchange rate movements approach maturity.

Fixed maturity security OTTI in 2014 were concentrated in the utility, consumer cyclical, and finance sectors within corporate securities. These OTTI were primarily related to intent to sell securities, or related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity security OTTI in 2013 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and in the utility, communications, and consumer non-cyclical sectors within corporate securities. These OTTI were primarily related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

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Equity security OTTI in 2014 and 2013 were primarily due to circumstances where the decline in value was maintained for one year or greater or due to the extent and duration of declines in values.

Closed Block Division

Net realized investment gains were $1,161 million in 2014, compared to net realized investment gains of $232 million in 2013.

Net realized gains on fixed maturity securities were $441 million in 2014, compared to net realized gains of $120 million in 2013, as set forth in the following table:

	Year Ended December 31,	
	2014	2013
	(in millions)	
Realized investment gains (losses), net—Fixed Maturity Securities—Closed Block Division		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 471	$ 300
Private bond prepayment premiums	39	33
Total gross realized investment gains	510	333
Gross realized investment losses:		
Net OTTI recognized in earnings(2)	(20)	(49)
Gross losses on sales and maturities(1)	(37)	(149)
Credit related losses on sales	(12)	(15)
Total gross realized investment losses	(69)	(213)
Realized investment gains (losses), net—Fixed Maturity Securities	$ 441	$ 120
Net gains (losses) on sales and maturities—Fixed Maturity Securities(1)	$ 434	$ 151

(1) Amounts exclude prepayment premiums, OTTI, and credit related losses through sales of investments pursuant to our credit risk objectives.
(2) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.

Net realized gains on equity securities were $431 million and $314 million for the years ended 2014 and 2013, respectively, and included net gains on sales of equity securities of $437 million and $317 million, respectively, partially offset by OTTI-impairments of $6 million and $3 million, respectively. See below for additional information regarding the OTTI of equity securities in 2014 and 2013.

Net realized gains on commercial mortgage and other loans for the year ended 2014 were $31 million, primarily driven by a net decrease in the allowance for losses of $32 million, including the impact of assumption updates. Net realized gains on commercial mortgage and other loans were $7 million for the year ended 2013, primarily related to a net decrease in the allowance for losses. For additional information regarding our allowance for losses, see "—General Account Investments—Commercial Mortgage and Other Loans—Commercial Mortgage and Other Loan Quality" below.

Net realized gains on derivatives were $263 million in 2014, compared to net realized losses of $200 million in 2013. Derivative gains in 2014 primarily reflect net gains of $182 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar strengthened against the euro; net gains of $72 million on interest rate derivatives primarily used to manage duration as long term interest rates decreased; and net gains of $45 million on

TBA forward contracts as interest rates declined. These gains are partially offset by losses of $41 million on terminated capital cash flow hedges due to debt extinguishment. Derivative losses in 2013 primarily reflect net losses of $106 million on interest rate derivatives primarily used to manage duration as long term interest rates increased as well as losses of $74 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened against the euro.

During 2014, we recorded OTTI of $31 million in earnings, compared to OTTI of $62 million in 2013. The following tables set forth, for the periods indicated, the composition of OTTI recorded in earnings attributable to the Closed Block division by asset type, and for fixed maturity securities, by reason.

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	Year Ended December 31,	
	2014	2013
	(in millions)	
OTTI recorded in earnings—Closed Block Division(1)		
Public fixed maturity securities	$ 13	$ 28
Private fixed maturity securities	7	21
Total fixed maturity securities	20	49
Equity securities	6	3
Other invested assets(2)	5	10
Total	$ 31	$ 62

(1) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.
(2) Includes OTTI relating to investments in joint ventures and partnerships.

	Year Ended December 31,	
	2014	2013
	(in millions)	
OTTI on fixed maturity securities recorded in earnings—Closed Block Division(1)		
Due to credit events or adverse conditions of the respective issuer(2)	$ 19	$ 44
Due to other accounting guidelines	1	5
Total	$ 20	$ 49

(1) Excludes the portion of OTTI recorded in "Other comprehensive income (loss)," 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.
(2) 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.

Fixed maturity security OTTI in 2014 were concentrated in the consumer cyclical and foreign government securities sectors within corporate securities and in asset-backed securities collateralized by sub-prime mortgages. Fixed maturity security OTTI in 2013 were concentrated in asset-backed securities collateralized by sub-prime mortgages and in the utility and consumer non-cyclical sectors within corporate securities.

Equity security OTTI in 2014 and 2013 were primarily due to circumstances where the decline in value was maintained for one year or greater or due to the extent and duration of declines in values.

General Account Investments

We maintain diversified investment portfolios in our general account to support our liabilities to customers as well as our other general liabilities. Our general account does not include: (1) assets of our derivative operations; (2) assets of our asset management operations, including assets managed for third parties; and (3) those assets classified as "Separate account assets" on our balance sheet.

The general account portfolios are managed pursuant to the distinct objectives and investment policy statements of PFI excluding the Closed Block division and the Closed Block division. The primary investment objectives of PFI excluding the Closed Block division include:

- hedging the market risk characteristics of the major product liabilities and other obligations of the Company;
- optimizing investment income yield within risk constraints over time; and
- for certain portfolios, optimizing total return, including both investment income yield and capital appreciation, within risk constraints over time, while managing the market risk exposures associated with the corresponding product liabilities.

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We pursue our objective to optimize investment income yield for PFI excluding the Closed Block division over time through: (1) the investment of net operating cash flow, including new product premium inflows, and proceeds from investment sales, repayments and prepayments, into investments with attractive risk-adjusted yields, and (2) where appropriate, the sale of lower-yielding investments, either to meet various cash flow needs or to manage the portfolio's risk exposure profile with respect to duration, credit, currency and other risk factors, while considering the impact on taxes and capital.

The primary investment objectives of the Closed Block division include:

- providing for the reasonable dividend expectations of the participating policyholders within the Closed Block division; and
- optimizing total return, including both investment income yield and capital appreciation, within risk constraints, while managing the market risk exposures associated with the major products in the Closed Block division.

Our portfolio management approach, while emphasizing our investment income yield and asset/liability risk management objectives, also takes into account the capital and tax implications of portfolio activity, our assertions regarding our ability and intent to hold equity securities to recovery, and our lack of any intention or requirement to sell debt securities before anticipated recovery. For a further discussion of our policies regarding other-than-temporary impairments, including our assertions regarding our ability and intent to hold equity securities to recovery and any intention or requirement to sell debt securities before anticipated recovery, see "—Fixed Maturity Securities—Other-than-Temporary Impairments of Fixed Maturity Securities" and "—Equity Securities—Other-than-Temporary Impairments of Equity Securities," below.

Management of Investments

The Investment Committee of our Board of Directors oversees our proprietary investments, including our general account portfolios. It also regularly reviews performance and risk positions. Our Chief Investment Officer Organization ("CIO Organization") works with our Risk Management group to develop the investment policies for the general account portfolios of our domestic and international insurance subsidiaries, and directs and oversees management of the general account portfolios within risk limits and exposure ranges approved annually by the Investment Committee.

The CIO Organization, including related functions within our insurance subsidiaries, works closely with product actuaries and Risk Management to understand the characteristics of our products and their associated market risk exposures. This information is incorporated into the development of target asset portfolios that hedge market risk exposures associated with the liability characteristics and establish investment risk exposures, within tolerances prescribed by Prudential's investment risk limits, on which we expect to earn an attractive risk-adjusted return. We develop asset strategies for specific classes of product liabilities and attributed or accumulated surplus, each with distinct risk characteristics. Market risk exposures associated with the liabilities include interest rate risk which is addressed through the duration characteristics of the target asset mix, and currency risk which is addressed by the currency profile of the target asset mix. In certain of our smaller markets, outside of the U.S. and Japan, capital markets limitations hinder our ability to hedge interest rate exposure to the same extent we do for our U.S. and Japan businesses and lead us to accept a higher degree of interest rate risk in these smaller portfolios. General account portfolios typically include allocations to credit and other investment risks as a means to enhance investment yields and returns over time.

Most of our products can be categorized into the following three classes:

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interest-crediting products for which the rates credited to customers are periodically adjusted to reflect market and competitive forces and actual investment experience, such as fixed annuities and universal life insurance;

- participating individual and experience-rated group products in which customers participate in actual investment and business results through annual dividends, interest or return of premium; and
- products with fixed or guaranteed terms, such as traditional whole life and endowment products, guaranteed investment contracts, funding agreements and payout annuities.

Our total investment portfolio is composed of a number of operating portfolios. Each operating portfolio backs a specific set of liabilities and the portfolios have a target asset mix that supports the liability characteristics, including duration, cash flow, liquidity needs and other criteria. As of December 31, 2015, the average duration of our domestic general account investment portfolios attributable to PFI excluding the Closed Block division, including the impact of derivatives, is between 6 and 7 years. As of December 31, 2015, the average duration of our international general account portfolios attributable to our Japanese insurance operations, including the impact of derivatives, is between 10 and 11 years, and represents a blend of yen-denominated and U.S. and Australian dollar-denominated investments, which have distinct average durations. Our asset/liability management process has enabled us to manage our portfolios through several market cycles.

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We implement our portfolio strategies primarily through investment in a broad range of fixed income assets, including government and agency securities, public and private corporate bonds and structured securities, and commercial mortgage loans. In addition, we hold allocations of non-coupon investments, which include equity securities and other long-term investments such as joint ventures and limited partnerships, real estate held through direct ownership, and seed money investments in separate accounts.

We manage our public fixed maturity portfolio to a risk profile directed or overseen by the CIO Organization and Risk Management groups and to a profile that also reflects the local market environments impacting both our domestic and international insurance portfolios. The return that we earn on the portfolio will be reflected both as investment income and also as realized gains or losses on investments.

We use privately-placed corporate debt securities and commercial mortgage loans, which consist of mortgages on diversified properties in terms of geography, property type and borrowers, to enhance the yield on our portfolio and to improve the overall diversification of the portfolios. Private placements typically offer enhanced yields due to an illiquidity premium and generally offer enhanced credit protection in the form of covenants. Our origination capability offers the opportunity to lead transactions and gives us the opportunity for better terms, including covenants and call protection, and to take advantage of innovative deal structures.

Derivative strategies are employed in the context of our risk management framework to enhance our ability to manage interest rate and currency risk exposures of the asset portfolio relative to the liabilities and to manage credit and equity positions in the investment portfolios. For a discussion of our risk management process, see "Quantitative and Qualitative Disclosures About Market Risk" below.

Our portfolio asset allocation reflects our emphasis on diversification across asset classes, sectors, and issuers. The CIO Organization, directly and through related functions within the insurance subsidiaries, implements portfolio strategies primarily through various asset management units within Prudential's Asset Management segment. Activities of the Asset Management segment on behalf of the general account portfolios are directed and overseen by the CIO Organization and monitored by Risk Management for compliance with investment risk limits.

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, policy loans, and non-coupon investments as defined above. 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 Asset Management 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 the investments of our general account apportioned between PFI excluding the Closed Block division and the Closed Block division as of the dates indicated.

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	December 31, 2015				
	PFI excluding Closed Block Division			Closed Block Division	Total
	($ in millions)				
Fixed maturities:					
Public, available-for-sale, at fair value	$216,628	63.1	%	$23,505	$240,133
Public, held-to-maturity, at amortized cost	1,834	0.5		0	1,834
Private, available-for-sale, at fair value	35,767	10.4		14,290	50,057
Private, held-to-maturity, at amortized cost	474	0.1		0	474
Trading account assets supporting insurance liabilities, at fair value	20,522	6.0		0	20,522
Other trading account assets, at fair value	1,561	0.5		288	1,849
Equity securities, available-for-sale, at fair value	6,537	1.9		2,726	9,263
Commercial mortgage and other loans, at book value	40,486	11.8		9,771	50,257
Policy loans, at outstanding balance	6,867	2.0		4,790	11,657
Other long-term investments(1)	6,549	1.9		2,921	9,470
Short-term investments	6,250	1.8		1,467	7,717
Total general account investments	343,475	100.0	%	59,758	403,233
Invested assets of other entities and operations(2)	13,959			0	13,959
Total investments	$357,434			$59,758	$417,192

	December 31, 2014				
	PFI excluding Closed Block Division			Closed Block Division	Total
	($ in millions)				
Fixed maturities:					
Public, available-for-sale, at fair value	$220,539	64.4	%	$28,626	$249,165
Public, held-to-maturity, at amortized cost	2,000	0.6		0	2,000
Private, available-for-sale, at fair value	34,738	10.1		15,039	49,777
Private, held-to-maturity, at amortized cost	575	0.2		0	575
Trading account assets supporting insurance liabilities, at fair value	20,263	5.9		0	20,263
Other trading account assets, at fair value	1,456	0.5		350	1,806
Equity securities, available-for-sale, at fair value	6,331	1.8		3,522	9,853
Commercial mortgage and other loans, at book value	36,538	10.7		9,475	46,013
Policy loans, at outstanding balance	6,798	2.0		4,914	11,712
Other long-term investments(1)	7,169	2.1		2,766	9,935
Short-term investments	5,874	1.7		2,037	7,911
Total general account investments	342,281	100.0	%	66,729	409,010
Invested assets of other entities and operations(2)	10,976			0	10,976
Total investments	$353,257			$66,729	$419,986

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(1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership and other miscellaneous investments. For additional information regarding these investments, see "—Other Long-Term Investments" below.

(2) Includes invested assets of our asset management and derivative operations. Excludes assets of our asset 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 2015 was primarily due to the reinvestment of net investment income and the transfer of assets from the former Closed Block Business partially offset by the translation impact of the Australian dollar and yen weakening against the U.S. dollar, a net decrease in fair value driven by an increase in interest rates in the U.S. and credit spread widening, and net business outflows. The general account investments attributable to the Closed Block division decreased in 2015, primarily due to the transfer of assets related to the former Closed Block Business and a net decrease in fair value driven by an increase in interest rates in the U.S. and credit spread widening. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 20 to the Consolidated Financial Statements.

As of both December 31, 2015 and 2014, 41% of our general account investments attributable to PFI excluding the Closed Block division related to our Japanese insurance operations.

Although the majority of the Japanese general account is invested in yen-denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. and Australian dollars, including those that support liabilities denominated in these currencies. As a result of continued growth in these portfolios, we have implemented a new reporting structure in Gibraltar Life that disaggregates the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The new structure was effective for financial reporting beginning in the first quarter of 2015. For additional information, see "—Results of Operations by Segment—International Insurance Division," above.

The following table sets forth the composition related to the investments of our Japanese insurance operations' general account as of the dates indicated.

	December 31, 2015	December 31, 2014
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	$109,257	$111,991
Public, held-to-maturity, at amortized cost	1,834	2,000
Private, available-for-sale, at fair value	9,747	8,835
Private, held-to-maturity, at amortized cost	474	575
Trading account assets supporting insurance liabilities, at fair value	2,020	1,910
Other trading account assets, at fair value	647	672
Equity securities, available-for-sale, at fair value	2,660	2,504
Commercial mortgage and other loans, at book value	9,756	8,215
Policy loans, at outstanding balance	2,208	2,146
Other long-term investments(1)	1,742	1,606
Short-term investments	417	406
Total Japanese general account investments	$140,762	$140,860

(1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership, derivatives, and other miscellaneous investments.

The decrease in general account investments related to our Japanese insurance operations in 2015 was primarily attributable to the translation impact of the Australian dollar and the yen weakening against the U.S. dollar, a net decrease in fair value driven by credit spread widening and an increase in U.S. interest rates.

As of December 31, 2015, our Japanese insurance operations had $50.2 billion, at fair value, of investments denominated in U.S. dollars, including $4.0 billion that were hedged to yen through third-party derivative contracts and $32.3 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. As of December 31, 2014, our Japanese insurance operations had $48.9 billion, at fair value, of investments denominated in U.S. dollars, including $3.6 billion that were hedged to yen through third-party derivative contracts and $31.9 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. The $1.3 billion increase in the fair value of U.S. dollar-denominated investments from December 31, 2014, is primarily attributable to portfolio growth as a result of business inflows and the reinvestment of net investment income, partially offset by a net decrease in fair value driven by credit spread widening and an increase in U.S. interest rates.

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Our Japanese insurance operations had $10.0 billion and $10.4 billion, at fair value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of December 31, 2015 and 2014, respectively. The $0.4 billion decrease in the fair value of Australian dollar-denominated investments from December 31, 2014, is primarily attributable to the translation impact of the Australian dollar weakening against the U.S. dollar, partially offset by portfolio growth as a result of business inflows and the reinvestment of net investment income.

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—International Insurance Division," above.

Investment Results

The following tables set forth the income yield and investment income for each major investment category of our general account 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 gains (losses).

	Year Ended December 31, 2015					
	PFI excluding Closed Block Division		Closed Block Division		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.03 %	$8,876	4.94 %	$1,692	4.15 %	$10,568
Trading account assets supporting insurance liabilities	3.59	720	0.00	0	3.59	720
Equity securities	5.67	266	3.49	70	5.01	336
Commercial mortgage and other loans	4.58	1,728	5.42	512	4.75	2,240
Policy loans	5.01	334	6.06	285	5.45	619
Short-term investments and cash equivalents	0.25	43	1.14	12	0.28	55
Other investments	5.91	489	7.24	222	6.27	711
Gross investment income before investment expenses	3.97	12,456	5.14	2,793	4.14	15,249
Investment expenses	(0.14)	(394)	(0.25)	(140)	(0.16)	(534)
Investment income after investment expenses	3.83 %	12,062	4.89 %	2,653	3.98 %	14,715
Investment results of other entities and operations(2)		114		0		114
Total investment income		$12,176		$2,653		$14,829

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	Year Ended December 31, 2014					
	PFI excluding Closed Block Division		Closed Block Division		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	3.90 %	$8,762	5.18 %	$1,917	4.08 %	$10,679
Trading account assets supporting insurance liabilities	3.75	765	0.00	0	3.75	765
Equity securities	5.97	275	3.40	79	5.11	354
Commercial mortgage and other loans	4.80	1,565	5.45	524	4.95	2,089
Policy loans	5.08	341	6.07	292	5.49	633
Short-term investments and cash equivalents	0.21	26	1.03	8	0.25	34
Other investments	9.10	753	13.35	342	10.11	1,095
Gross investment income before investment expenses	4.04	12,487	5.54	3,162	4.28	15,649
Investment expenses	(0.14)	(362)	(0.27)	(155)	(0.16)	(517)
Investment income after investment expenses	3.90 %	12,125	5.27 %	3,007	4.12 %	15,132
Investment results of other entities and operations(2)		124		0		124
Total investment income		$12,249		$3,007		$15,256

	Year Ended December 31, 2013					
	PFI excluding Closed Block Division		Closed Block Division		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	3.79 %	$8,575	5.30 %	$2,002	4.01 %	$10,577
Trading account assets supporting insurance liabilities	3.79	775	0.00	0	3.79	775
Equity securities	6.19	256	3.40	82	5.16	338
Commercial mortgage and other loans	5.04	1,403	5.85	552	5.24	1,955
Policy loans	4.82	316	6.01	295	5.33	611
Short-term investments and cash equivalents	0.22	30	0.95	7	0.25	37
Other investments	7.04	553	10.22	228	7.75	781
Gross investment income before investment expenses	3.89	11,908	5.52	3,166	4.15	15,074
Investment expenses	(0.12)	(308)	(0.26)	(150)	(0.14)	(458)
Investment income after investment expenses	3.77 %	11,600	5.26 %	3,016	4.01 %	14,616
Investment results of other entities and operations(2)		113		0		113
Total investment income		$11,713		$3,016		$14,729

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on

cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period yields are presented on a basis consistent with the current period presentation.

(2) Includes investment income of our asset management operations and derivative operations, as described below under "—Invested Assets of Other Entities and Operations."

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See below for a discussion of the change in the yields for PFI excluding the Closed Block division. The net investment income yield attributable to the Closed Block division for 2015 decreased compared to 2014, due to lower income on non-coupon investments and lower fixed income reinvestment rates.

The net investment income yield attributable to the Closed Block division for 2014 remained relatively flat compared to 2013, as higher income from non-coupon investments was mostly offset by lower fixed income reinvestment rates.

The following table sets forth the income yield and investment income for each major investment category of our general account investments, excluding both the Closed Block division and the Japanese insurance operations' portion of the general account which is presented separately below, 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 gains (losses).

	Year Ended December 31,					
	2015		2014		2013	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.67 %	$5,686	4.69 %	$5,461	4.65 %	$5,306
Trading account assets supporting insurance liabilities	3.79	688	3.96	730	3.99	741
Equity securities	6.07	197	6.49	191	7.30	174
Commercial mortgage and other loans	4.62	1,338	4.96	1,271	5.27	1,145
Policy loans	5.52	250	5.66	253	5.45	228
Short-term investments and cash equivalents	0.25	38	0.21	22	0.23	26
Other investments	6.17	356	10.03	598	7.54	383
Gross investment income before investment expenses	4.33	8,553	4.63	8,526	4.52	8,003
Investment expenses	(0.15)	(239)	(0.15)	(209)	(0.12)	(152)
Investment income after investment expenses	4.18 %	8,314	4.48 %	8,317	4.40 %	7,851
Investment results of other entities and operations(2)		114		124		113
Total investment income		$8,428		$8,441		$7,964

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period yields are presented on a basis consistent with the current period presentation.

(2) Includes investment income of our asset management operations and derivative operations, as described below under "—Invested Assets of Other Entities and Operations."

The decrease in net investment income yield attributable to our general account investments, excluding both the Closed Block division and the Japanese operations' portfolio, for 2015, compared to 2014, was primarily the result of lower income from non-coupon investments and lower fixed income reinvestment rates.

The increase in net investment income yield attributable to our general account investments, excluding both the Closed Block division and the Japanese operations' portfolio, for 2014, compared to 2013, was primarily the result of higher income from non-coupon investments and from reinvestments within certain asset portfolios primarily into

higher yielding securities, primarily during the second half of 2013.

The following table sets forth the income yield and investment income for each major investment category of our Japanese insurance operations' general account 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 gains and losses.

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	Year Ended December 31,					
	2015		2014		2013	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	3.23 %	$3,190	3.06 %	$3,301	2.91 %	$3,269
Trading account assets supporting insurance liabilities	1.66	32	1.80	35	1.81	34
Equity securities	4.77	69	5.06	84	4.69	82
Commercial mortgage and other loans	4.45	390	4.20	294	4.21	258
Policy loans	3.93	84	3.93	88	3.70	88
Short-term investments and cash equivalents	0.32	5	0.24	4	0.19	4
Other investments	5.32	133	6.67	155	6.12	170
Gross investment income before investment expenses	3.35	3,903	3.18	3,961	3.02	3,905
Investment expenses	(0.13)	(155)	(0.12)	(153)	(0.12)	(156)
Total investment income	3.22 %	$3,748	3.06 %	$3,808	2.90 %	$3,749

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period yields are presented on a basis consistent with the current period presentation.

The increase in net investment income yield on the Japanese insurance portfolio for 2015, compared to 2014, was primarily attributable to a higher allocation into U.S. dollar-denominated investments.

The increase in net investment income yield on the Japanese insurance portfolio for 2014, compared to 2013, was primarily attributable to a higher allocation into U.S. dollar-denominated securities and higher income from non-coupon investments.

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 $35.0 billion and $33.9 billion, for the years ended December 31, 2015 and 2014, 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 $9.3 billion and $8.9 billion, for the years ended December 31, 2015 and 2014, respectively. The 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—International Insurance Division."

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 12 to the Consolidated Financial Statements for further information on the Closed Block.

Fixed Maturity Securities

Fixed Maturity Securities by Contractual Maturity Date

The following table sets forth the breakdown of the amortized cost of our fixed maturity securities portfolio by contractual maturity as of December 31, 2015.

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	December 31, 2015		
	Amortized Cost	% of Total	
	($ in millions)		
Corporate & government securities:			
Maturing in 2016	$7,589	3.3	%
Maturing in 2017	8,884	3.9	
Maturing in 2018	9,944	4.3	
Maturing in 2019	9,577	4.1	
Maturing in 2020	11,993	5.2	
Maturing in 2021	11,054	4.8	
Maturing in 2022	10,046	4.3	
Maturing in 2023	9,306	4.0	
Maturing in 2024	9,652	4.2	
Maturing in 2025	8,438	3.6	
Maturing in 2026	5,346	2.3	
Maturing in 2027 and beyond	110,417	47.7	
Total corporate & government securities	212,246	91.7	
Asset-backed securities	6,873	3.0	
Commercial mortgage-backed securities	7,300	3.2	
Residential mortgage-backed securities	4,861	2.1	
Total fixed maturities	$231,280	100.0	%

Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

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 as of the dates indicated and the associated gross unrealized gains (losses).

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Industry(1)	December 31, 2015 Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	December 31, 2014 Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
	(in millions)							
Corporate securities:								
Finance	$21,505	$1,385	$224	$22,666	$20,569	$1,984	$55	$22,498
Consumer non-cyclical	20,732	2,073	408	22,397	20,956	2,822	141	23,637
Utility	17,369	1,423	393	18,399	16,144	2,149	82	18,211
Capital goods	10,503	978	241	11,240	10,170	1,348	67	11,451
Consumer cyclical	9,223	846	146	9,923	9,447	1,129	37	10,539
Foreign agencies	5,222	1,086	67	6,241	5,186	1,227	38	6,375
Energy	10,793	674	855	10,612	11,395	1,135	275	12,255
Communications	6,294	690	200	6,784	6,465	1,021	41	7,445
Basic industry	5,658	404	321	5,741	6,003	640	71	6,572
Transportation	6,536	605	105	7,036	5,718	769	18	6,469
Technology	3,459	278	72	3,665	3,474	389	30	3,833
Industrial other	3,547	245	73	3,719	2,746	333	21	3,058
Total corporate securities	120,841	10,687	3,105	128,423	118,273	14,946	876	132,343
Foreign government(3)	72,265	12,167	131	84,301	70,327	11,286	111	81,502
Residential mortgage-backed	4,861	353	6	5,208	5,747	466	4	6,209
Asset-backed securities(4)	6,873	195	69	6,999	7,094	292	78	7,308
Commercial mortgage-backed	7,300	160	37	7,423	9,688	344	24	10,008
U.S. Government	11,479	2,900	11	14,368	11,493	3,468	5	14,956
State & Municipal(5)	7,661	675	39	8,297	5,163	693	3	5,853
Total(6)	$231,280	$27,137	$3,398	$255,019	$227,785	$31,495	$1,101	$258,179

(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 $316 million of gross unrealized gains and $0 million of gross unrealized losses as of December 31, 2015, compared to $328 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2014, on securities classified as held-to-maturity.

(3) As of both December 31, 2015 and 2014, based on amortized cost, 76% represent Japanese government bonds held by our Japanese insurance operations, with no other individual country representing more than 10% of the balance.

(4) Includes securities collateralized by sub-prime mortgages. See "—Asset-Backed Securities" below.

(5) Includes securities related to the Build America Bonds program.

(6) 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. Also excluded from the table above are fixed maturity securities classified as trading. See "—Trading Account Assets Supporting Insurance Liabilities" and "—Other Trading Account Assets" for additional information.

The decrease in net unrealized gains from December 31, 2014 to December 31, 2015, was primarily due to a net decrease in fair value driven by an increase in interest rates in the U.S. and credit spread widening.

As of December 31, 2015, PFI excluding the Closed Block division had direct and indirect energy and related exposure with a market value of approximately $13.4 billion, and a net unrealized loss of approximately $0.2 billion, which is reflected in AOCI. The exposure was primarily through public and private corporate securities, 87% of which are investment grade, and also included trading assets, equity securities and private equity investments. OTTI related to investments in the energy sector were $79 million for the year ended December 31, 2015, and we could be exposed to future valuation declines or impairments if energy prices remain at current or lower levels for an extended period of time.

Asset-Backed Securities

The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to PFI excluding the Closed Block division, by credit quality, as of the dates indicated.

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Asset-Backed Securities at Amortized Cost

	December 31, 2015						
	Lowest Rating Agency Rating						
	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2014
	(in millions)						
Collateralized by sub-prime mortgages	$0	$1	$81	$90	$969	$ 1,141	$1,627
Collateralized loan obligations	4,258	22	0	0	0	4,280	3,821
Collateralized by education loans(1)	20	372	0	0	0	392	382
Collateralized by credit cards	195	0	6	0	0	201	268
Collateralized by auto loans	518	0	0	0	0	518	492
Other asset-backed securities(2)	44	100	70	14	113	341	504
Total asset-backed securities(3)	$5,035	$495	$157	$104	$1,082	$ 6,873	$7,094

(1) All of the $392 million of education loans included above carry a Department of Education guaranty as of December 31, 2015.

(2) Includes asset-backed securities collateralized by bond obligations, aircraft, equipment leases, franchises, and timeshares.

(3) Excluded from the table above are asset-backed securities held outside the general account in other entities and operations. Also excluded from the table above are asset-backed securities classified as trading.

Asset-Backed Securities at Fair Value

	December 31, 2015						
	Lowest Rating Agency Rating						
	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2014
	(in millions)						
Collateralized by sub-prime mortgages	$0	$1	$79	$90	$1,019	$ 1,189	$1,742
Collateralized loan obligations	4,294	23	0	0	0	4,317	3,867
Collateralized by education loans(1)	20	375	0	0	0	395	398
Collateralized by credit cards	200	0	6	0	0	206	277
Collateralized by auto loans	516	0	0	0	0	516	493
Other asset-backed securities(2)	57	100	77	15	127	376	531
Total asset-backed securities(3)	$5,087	$499	$162	$105	$1,146	$ 6,999	$7,308

(1) All of the $395 million of education loans included above carry a Department of Education guaranty as of December 31, 2015.

(2) Includes asset-backed securities collateralized by bond obligations, aircraft, equipment leases, franchises, and timeshares.

(3) Excluded from the table above are asset-backed securities held outside the general account in other entities and operations. Also excluded from the table above are asset-backed securities classified as trading.

The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2015, including Standard & Poor’s, Moody’s and Fitch. In making our investment decisions, rather than relying solely on the

rating agencies' evaluations, we assign internal ratings to our asset-backed securities based upon our dedicated asset-backed securities unit's independent evaluation of the underlying collateral and securitization structure, including any guarantees from monoline bond insurers.

While there is no market standard definition for securities collateralized by sub-prime mortgages, we define sub-prime mortgages as residential mortgages that are originated to weaker-quality obligors as indicated by weaker credit scores, as well as mortgages with higher loan-to-value ratios or limited documentation.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to PFI excluding the Closed Block division decreased from $1.627 billion as of December 31, 2014, to $1.141 billion as of December 31, 2015, primarily reflecting sales and principal paydowns. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages were $34 million as of December 31, 2015, and $55 million as of December 31, 2014. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 20 to the Consolidated Financial Statements.

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Residential Mortgage-Backed Securities

The following tables set forth the amortized cost of our residential mortgage-backed securities attributable to PFI excluding the Closed Block division as of the dates indicated.

	December 31, 2015			December 31, 2014		
	Amortized Cost	% of Total		Amortized Cost	% of Total	
	($ in millions)					
By security type:						
Agency pass-through securities(1)	$4,382	90.1	%	$5,118	89.1	%
Collateralized mortgage obligations	479	9.9		629	10.9	
Total residential mortgage-backed securities	$4,861	100.0	%	$5,747	100.0	%
Portion rated AA or higher(2)	$4,791	98.6	%	$5,672	98.7	%

(1) As of December 31, 2015, of these securities, $3.267 billion are supported by U.S. government and $1.115 billion are supported by foreign governments. As of December 31, 2014, of these securities, $3.855 billion were supported by the U.S. government and $1.263 billion were supported by foreign governments.

(2) Based on lowest external rating agency rating.

Commercial Mortgage-Backed Securities

The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to PFI excluding the Closed Block division as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost

	December 31, 2015						
	Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2014
	(in millions)						
2015	$512	$95	$0	$0	$0	$607	$ 0
2014	2,419	1	0	0	0	2,420	2,383
2013	2,460	99	0	9	0	2,568	2,481
2012—2009	199	270	0	0	0	469	529
2008—2007	63	33	14	3	0	113	301
2006	1,036	43	10	0	0	1,089	2,576
2005 & Prior	30	1	3	0	0	34	1,418
Total commercial mortgage-backed securities(2)(3)(4)	$6,719	$542	$27	$12	$0	$7,300	$ 9,688

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of December 31, 2015, including Standard & Poor's, Moody's, Fitch and Realpoint.

(2) Excluded from the table above are commercial mortgage-backed securities held outside the general account in other entities and operations. Also excluded from the table above are commercial mortgage-backed securities classified as trading.

(3) Included in the table above, as of December 31, 2015, are downgraded super senior securities with amortized cost of $49 million in AA and $20 million in A.

(4) Included in the table above, as of December 31, 2015, are agency commercial mortgage-backed securities with amortized cost of $490 million, all rated AA.

On an amortized cost basis, commercial mortgage-backed securities attributable to PFI excluding the Closed Block division decreased from $9.7 billion as of December 31, 2014, to $7.3 billion as of December 31, 2015, primarily reflecting maturities of 2006 and prior vintages.

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Commercial Mortgage-Backed Securities at Fair Value

Vintage	December 31, 2015 Lowest Rating Agency Rating(1) AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2014
	(in millions)						
2015	$506	$95	$0	$0	$0	$601	$ 0
2014	2,470	1	0	0	0	2,471	2,474
2013	2,512	101	0	8	0	2,621	2,571
2012—2009	195	285	0	0	0	480	