PRUDENTIAL FINANCIAL INC
Form 10-K
February 17, 2017
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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, 2016
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, 2016, the aggregate market value of the registrant's Common Stock (par value $0.01) held by non-affiliates of the registrant was $31.30 billion and 439 million shares of the Common Stock were outstanding. As of January 31, 2017, 430 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 7, 2017, 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, 2016.

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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 facilities; (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, Guideline AXXX and principles-based reserving requirements; (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 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) possible difficulties in executing, integrating and realizing projected results of acquisitions, divestitures and restructurings; (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 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 $1.264 trillion of assets under management as of December 31, 2016, 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 canceled 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 certain share classes. 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 other 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 for certain products 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 guaranteed living benefit 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. Our results are impacted by the fee rates we assess on our products. Some of our historical inforce products have fee tiers that decline throughout the life of the contract while our newer products generally have lower fee rates.

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The Prudential Premier® Retirement Variable Annuity with Highest Daily Lifetime Income ("HDI") offers lifetime income based on the highest daily account value plus a compounded deferral credit. HDI v.3.0 is the most current version of our "highest daily" guaranteed living benefits. 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 covered most new HDI v.3.0 variable annuity business issued between April 1, 2015 and December 31, 2016 on a quota share basis, with Union Hamilton's cumulative quota share amounting to $2.9 billion of new rider premiums as of December 31, 2016. Reinsurance on business subject to this agreement remains in force for the duration of the underlying annuity contracts. New sales of HDI v.3.0 subsequent to December 31, 2016 are not covered by this external reinsurance agreement.

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

We also offer variable annuities without guaranteed living benefits and immediate annuities. The Prudential Premier® Investment Variable Annuity ("PPI") 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. For certain products, we have the ability to reset the crediting rates at our discretion subject to certain policy terms establishing guaranteed minimum interest crediting rates. 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, an affiliated broker-dealer, and the agency distribution force of The Allstate Corporation ("Allstate"). Our distribution efforts are supported by a network of internal and external wholesalers.

For information regarding the U.S. Department of Labor (“DOL”) fiduciary rule and its impact on our Individual Annuities segment, see “Regulation—Other U.S. Federal Regulation—DOL Fiduciary Rule” below.

Underwriting and Pricing

We earn asset management fees determined as a percentage of the average assets of our proprietary 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.

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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.

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 guaranteed living benefit 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, the expertise of our employees, 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. While we continue to have heightened pricing pressures, driven by competition, contractual limits on fee income, the influence of intermediaries and regulations requiring more standard and consistent fee disclosures across industry providers, this business has experienced strong persistency in recent years.

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. We continue to be a market leader in the stable value wrap market despite increased competition.

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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 design, 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.

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, net of 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 manage certain of the related risks with derivatives and other 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 other 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, 2016, our pension risk transfer business in force had an approximate average age of 74.

Other 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.

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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, net of expenses.

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 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 unaffiliated specialized brokers. 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.

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 ("FANIP") pursuant to which statutory trusts issue short-term commercial paper and/or medium-term notes secured by funding agreements issued to the trusts by Prudential Insurance. Prudential Insurance may also issue funding agreements directly to the Federal Home Loan Bank of New York.

For information regarding the DOL fiduciary rule and its impact on our Retirement segment, see "Regulation—Other U.S. Federal Regulation—DOL Fiduciary Rule" below.

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, persistency, retirement date and annuity form. 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, was rebranded as PGIM, The Global Investment Management Businesses of Prudential Financial, Inc ("PGIM").

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.

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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.

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:

PGIM Fixed Income. PGIM 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. PGIM 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.

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.

PGIM Investments. PGIM 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 70 mutual funds as of December 31, 2016. 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.

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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 publicly traded equity 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."

For information regarding the DOL fiduciary rule and its impact on our Asset Management segment, see "Regulation—Other U.S. Federal Regulation—DOL Fiduciary Rule" below.

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 universal life, term life and variable life insurance products primarily to the U.S. mass middle, mass affluent and affluent markets. In general, we consider: households with investable assets in excess of $25,000 or annual income in excess of $50,000 to be mass middle; 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. We generally experience higher sales during the fourth quarter as some of our clients use life insurance for estate and tax planning purposes.

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, with a goal of managing 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 45%, 32%, 15% and 8%, respectively, of our face amount of individual life insurance in force, net of reinsurance as of December 31, 2016. We continue to maintain focus on our product diversification strategy which 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 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 middle, mass affluent and 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 Advisors distributes Prudential universal, term and variable 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. In addition, Prudential Advisors offers certain retail brokerage and retail investment advisory services through our dually registered broker-dealer and investment advisor, Pruco Securities, LLC. These services include brokerage accounts, discretionary and non-discretionary investment advisory programs and financial planning services. Although Prudential Advisors generates an operating loss within our Individual Life segment, it generates positive overall value when we consider the aggregate value of the business that is acquired through this channel. 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.

For information regarding the DOL fiduciary rule and its impact on our Individual Life segment, see “Regulation—Other U.S. Federal Regulation—DOL Fiduciary Rule” below.

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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 price policies using 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. 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 are a provider of both group life and disability insurance, and compete with other large, well-established life and health insurance providers in mature U.S. markets. We compete primarily based on brand recognition, service capabilities, customer relationships, financial strength, range of product offerings and price. Pricing of group insurance products is reflective of 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 is 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 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, 2016, 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 38% 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, 2016, we have a 40% interest in a retirement services business in Chile, a 70% interest in a life insurance business in Malaysia, and a 49% interest in a life insurance joint venture in India, which increased from 26% as of December 31, 2015.

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 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. As a result of both the continued low interest rate environment in Japan and fluctuating currency markets, there has been a shift in demand for certain products, particularly for those denominated in U.S. dollars. In addition, we regularly examine our yen-based product offerings and have taken specific actions to reprice or, in some cases, suspend sales of products that are most affected by these factors.

We classify our products into four general categories: life insurance protection, retirement, annuity and accident & health, which represented 59%, 20%, 15% and 6%, respectively, of full year 2016 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.

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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.

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, 2016 and 2015, was 7,680 and 7,592, 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, 2016 and 2015, was 8,884 and 8,805, 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 within any reporting period 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 and premium rate changes. Changes in tax laws may also affect profitability.

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 Historic 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 strategic expenditures, 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, discussed below; (9) the foreign currency income hedging program used to hedge certain non-U.S. dollar denominated earnings in our International Insurance segment; (10) the impact of intercompany arrangements with our Retirement and Asset Management segments to translate certain non-U.S. dollar-denominated earnings at fixed currency exchange rates; and (11) 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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Other. In addition to the business 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. The contractual terms of the sale have been 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 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.
- 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. 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 the other divested businesses that are included in our Corporate and Other operations. 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.

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 experience 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. This excess experience will not be available to shareholders. A policyholder dividend obligation liability is established for any excess experience. 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.

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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 Commissioner of Banking and Insurance for the State of New Jersey, to enter into agreements to transfer 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, 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 continues to be 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 ("U.K."), 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. In addition, we cannot predict how the Trump Administration will impact these existing laws and regulations, and regulatory frameworks, including Dodd-Frank, U.S. tax laws, the U.S. Department of Labor's new fiduciary rules and the U.S.'s participation in international supervisory initiatives.

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.

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In February 2017 President Trump issued an executive order directing the Secretary of the Treasury to consult with the heads of the member agencies of the Financial Stability Oversight Council (the "Council") and report to the President on the extent to which existing laws and regulations promote certain core principles of regulation of the financial system that are outlined in the order. We cannot predict what impact the order will ultimately have on Dodd-Frank or the Company. In addition, during 2016 legislation was introduced to amend certain provisions of Dodd-Frank, including the authority of the Council to designate non-bank financial companies for FRB supervision, and it is expected that a revised version of the proposed legislation will be introduced again in 2017. We cannot predict whether this or other legislation impacting Dodd-Frank will ultimately be passed into law, or how such legislation will impact the Company.

Regulation as a Designated Financial Company

Dodd-Frank established the 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 (i) material financial distress at the Company, or (ii) 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. Under Dodd-Frank the Council is required to reevaluate this designation annually. The Council last voted to maintain Prudential Financial’s designation in December 2015.

As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the FRB and to stricter prudential standards. These standards include or may 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 our capital planning and risk management processes, model governance and validation, liquidity management, compliance, information and technology security and resolution and recovery planning.

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. In June 2016, the FRB issued an advance notice of proposed rulemaking regarding approaches to minimum regulatory capital requirements for institutions supervised by the FRB that are significantly engaged in insurance activities, including insurance companies that own a bank or thrift institution and Designated Financial Companies. The advance notice invited comments on a “building block approach” and a “consolidated approach” for determining minimum regulatory capital requirements, including which approach is appropriate for Designated Financial Companies. The building block approach would aggregate capital resources and requirements across different legal entities using each entity’s current regulatory regime to calculate combined qualifying and required capital for the group. The consolidated approach would categorize insurance liabilities, assets and certain other exposures into risk segments, determine consolidated required capital by applying risk factors to the amounts in each segment, define qualifying capital for the consolidated firm, and then compare consolidated qualifying capital to consolidated required capital. The building block approach and the consolidated approach as described in the advance notice of proposed rulemaking are high level concepts for capital standards, and will ultimately need to be defined in detail in any final standards. The comment period for the advance notice closed on September 16, 2016.

Also in June 2016, the FRB issued proposed enhanced prudential standards for Designated Financial Companies significantly engaged in insurance activities relating to corporate governance, risk management, and liquidity risk management. The proposed corporate governance standards would require Designated Financial Companies to establish and maintain a risk committee of the board of directors and appoint a chief risk officer and chief actuary. The proposed risk management standards would require Designated Financial Companies to establish a comprehensive risk management framework that includes policies, procedures, and systems for monitoring and managing risk enterprise-wide. The proposed liquidity risk management standards would require periodic cash-flow projections, liquidity stress testing and maintenance of a liquidity buffer. The comment period for this proposal closed on August 17, 2016.

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Stress Tests

As a Designated Financial Company, Dodd Frank requires us to 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.

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, a plan for rapid and orderly resolution in the event of severe financial distress. We submitted our most recent resolution plan in December 2015, which is subject to review for credibility and completeness, and have not yet received feedback from the FBR and FDIC on the plan. In August 2016, the FRB and the FDIC announced that for Designated Financial Companies, including the Company, and certain banking organizations required to file annual resolution plans the next resolution plan filing deadline will be delayed from December 31, 2016 to December 31, 2017.

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 due to deficiencies identified in its resolution plan;
- 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.

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. We submitted our first recovery plan in 2016. We are scheduled to submit our next recovery plan in June 2018.

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.

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- 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.

Derivatives Regulation

Prudential Global Funding LLC ("PGF"), Prudential Financial and our subsidiaries use derivatives for various purposes, including hedging interest rate, foreign currency and equity market exposures. Dodd-Frank established a framework for regulation of the over-the-counter ("OTC") derivatives markets. This framework sets out requirements regarding the clearing and reporting of derivatives transactions, as well as collateral posting requirements for uncleared swaps. Inter affiliate swaps entered into between our subsidiaries are generally exempt from most of these requirements.

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. These regulations may significantly increase our hedging costs, and otherwise impact our hedging strategy or implementation thereof, or cause us to increase or change the composition of the risks we do not hedge. In particular, we continue to monitor the potential hedging cost impacts of new initial margin requirements that we will be required to comply with in 2020, and increased capital requirements for derivatives transactions that may be imposed on banks that are our counterparties. Additionally, the increased need to post cash collateral in connection with mandatorily cleared swaps may also require the liquidation of higher yielding assets for low yielding cash, resulting in a negative impact on investment income.

Under Dodd-Frank, the Securities and Exchange Commission ("SEC") and the Commodity Futures Trading Commission ("CFTC") are required to determine, but have not yet determined, whether, and if so, 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.

Other U.S. Federal Regulation

U.S. Tax Legislation

The Company and certain domestic subsidiaries file a consolidated federal income tax return that includes both life insurance companies and non-life insurance companies. Certain other domestic subsidiaries file separate individual corporate tax returns. Subsidiaries operating outside the U.S. are taxed, and income tax expense is recorded, based on applicable foreign statutes. The principal differences between the Company's actual income tax expense and the 35% statutory federal income tax rate are generally deductions for non-taxable investment income, including the dividends received deduction (the "DRD"), foreign taxes applied at a different tax rate than the U.S. rate and certain tax credits. In addition, as discussed further below, the tax attributes of our products may impact both the Company's taxable income and our customers' tax positions. See "Income Taxes" in Note 2 to the Consolidated Financial Statements and Note 19 to the Consolidated Financial Statements for a description of the Company's tax position. As discussed further below, there are several potential changes to the tax laws that may impact the Company's tax position and the attractiveness of our products.

The 2016 Presidential and Congressional election results may make U.S. tax reform more likely in the near term. Tax reform proposals from the past several years, including the House Republicans Tax Reform Blueprint, may be the starting point for such legislative changes. Such proposals have a common theme of modifying the tax law by lowering tax rates and broadening the tax base by reducing or eliminating deductions and other tax expenditures. Overall lower effective individual tax rates could make our products less attractive to customers. It is unclear whether or when Congress may take up overall tax reform and what impact tax reform will have on the Company and its products. However, even in the absence of overall tax reform, Congress could enact more piecemeal tax legislation that would change the Company’s tax profile, make our products less competitive and adversely impact our capital position.

Current U.S. federal income tax laws generally permit certain holders to defer taxation on the inside build-up of investment value of annuities and life insurance products until there are contract distributions and, in general, to exclude from taxation the death benefit paid under a life insurance contract. President Trump’s tax reform proposal published during the 2016 Presidential campaign makes reference to a possible limit on the inside build-up of life insurance for higher earners, although the provision was removed in a later draft. Congress also 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.

Congress, as well as state and local governments, also consider 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. As another example, the U.S. Treasury and the Internal Revenue Service intend to address through guidance the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. 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%. Furthermore, the President’s annual budget typically includes proposals which, if enacted, would affect the taxation of life insurance companies and certain life insurance products. In recent years the Obama Administration's proposals have included changes to the taxation of corporate-owned life insurance policies (“COLI”), as well as changes to the DRD. 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.

There have also been various proposals from Congress and the prior Administration that would impact the way U.S. multinational corporations are taxed, including imposing a liability-based fee on financial services companies, changing how companies importing and exporting goods or services are taxed, changing the deductibility of interest and modifying how net operating losses are used, among other proposals. It is unclear how these or other proposals would impact insurance companies.

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. See "—Insurance Operations—State Insurance Regulation—Financial Regulation—Insurance Reserves and Regulatory Capital" for information on principles based reserves.

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

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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 2016, the DOL issued a final regulation accompanied by new class exemptions and amendments to long-standing exemptions from the prohibited transaction provisions under ERISA (collectively, the “Rules”), with implementation beginning in April 2017, and compliance with certain additional provisions required by January 2018. The Rules redefine who will be considered a “fiduciary” for purposes of transactions with qualified plans, plan participants and Individual Retirement Accounts (“IRAs”), and generally provide that investment advice to a plan participant or IRA owner will be treated as a fiduciary activity. We have analyzed the Rules’ impact on our operations and are implementing the adjustments that we believe are necessary to come into alignment with the Rules’ requirements. In addition, in January 2017, the DOL issued interpretive guidance on the Rules, and we are evaluating whether or not the guidance will affect our implementation plans.

In February 2017 President Trump directed the DOL to examine the Rules to determine whether they may adversely affect access to retirement information and advice, and if so, to issue a proposed rule rescinding or revising the Rules. The DOL subsequently released a statement indicating that it would consider its legal options to delay the implementation date of the Rules. We cannot predict what impact the review will have on the Rules or if their implementation date will be delayed. In addition, several financial services industry groups have initiated litigation challenging the Rules on both procedural and substantive grounds. The outcome of these litigations may alter whether and how some or all of the Rules are applied to our businesses.

Overall, if the Rules are enacted in their current form, they will result in increased compliance costs and may create increased exposure to legal claims under certain circumstances, including class actions. We believe the Rules will primarily impact our Individual Annuities, Retirement and Asset Management segments and our Prudential Advisors distribution system which we include in the results of our Individual Life segment. Significant aspects of the Rules and their impact on our businesses include the following:

- Prudential Advisors: We are taking the steps we believe are required to comply with the new “best interest contract exemption” for investment advice concerning retirement plans and IRAs, including recommendations to purchase products sold to IRAs, which constitutes a significant part of Prudential Advisors’ non-life insurance new business revenues. The Rules state that proprietary products may be sold to IRA owners if certain conditions are met, subject to significant new requirements for this type of sale, and we are implementing processes that we believe will comply with these requirements. The Rules will impose compliance and contract requirements and will give customers a new private right of action for breach of contract that in some circumstances may result in damages and liability under ERISA and the Internal Revenue Code for excise taxes, disgorgement of profit, and other possible remedies. The Rules will lead to changes to compensation and benefit structures, and possibly to our product offerings.

- Annuities: Sales of variable annuities by our retail distributors, including Prudential Advisors, will be subject to the best interest contract exemption described above, but certain fixed annuities can be subject to a separate exemption or to the best interest contract exemption. As a result of the Rules, certain distributors are announcing that they will restrict the sale of certain types of annuities. In addition, we may need to alter our product design, offerings or pricing to meet the needs of certain distributors who may request changes to support their compliance with the Rules. We will need to monitor and limit certain wholesaling and other sales support and customer service activities to continue not to be classified as a fiduciary under the Rules.

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- Retirement: We are making certain changes to the asset allocation tools included in our product offerings, which may include illustrations based on specific investments, so that the tools are not expected to fall within the definition of acting as a fiduciary for plan clients. We are developing processes for IRA offerings to comply with the new best interest contract exemption referred to above in connection with recommendations to plan participants to roll assets over to an IRA or retain them in their employer's retirement plan. In addition, we are making changes to relationships with sponsors and intermediaries for plans with less than $50 million in assets to continue not to be classified as a fiduciary under the Rules. Historically, the substantial majority of our earnings in the Retirement business have not come from IRA offerings, asset retention and consolidation activities, and plans with less than $50 million in assets.

- Asset Management: We may need to alter our product design, offerings or pricing in order to meet the needs of certain distributors of mutual funds who may request changes to support their compliance with the Rules. We will also need to monitor and limit certain wholesaling and other sales support and customer service activities to continue not be classified as a fiduciary under the Rules.

For additional risks associated with the Rules and other laws and regulations affecting our products and services, see "Risk Factors—Regulatory and Legal Risks—Changes in the legislation and regulation of retirement products and services, including the DOL's new fiduciary Rules, 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.

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 2016 college was held in October.

Group-Wide Supervision

The New Jersey Department of Banking and Insurance ("NJDOBI") has acted as the group-wide supervisor of Prudential Financial since 2015 pursuant to New Jersey legislation that authorizes group-wide supervision of internationally active insurance groups. The law, among other provisions, authorizes NJDOBI to examine Prudential Financial and its subsidiaries, including by ascertaining the financial condition of the insurance companies for purposes of assessing enterprise risk. As group-wide supervisor, NJDOBI reviews the Company's operations beyond those of its New Jersey domiciled insurance subsidiaries.

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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.

Some laws which facilitate group-wide supervision have already been enacted in the jurisdictions in which we operate, such as Own Risk and Solvency Assessment ("ORSA") reporting, which requires larger insurers to assess the adequacy of its and its group's risk management and current and future solvency position, and Corporate Governance Annual Disclosure reporting, which requires us to report on our governance structure, policies and practices. The NAIC has also formed a working group to develop a U.S. group capital calculation using an RBC aggregation methodology. In constructing the calculation the working group is considering group capital developments undertaken by the FRB and the International Association of Insurance Supervisors ("IAIS"). At this time, we cannot predict what, if any, additional capital requirements and compliance costs any new group-wide standards 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.

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 2016, as part of the normal five year examination, NJDOBI, along with the insurance regulators of Arizona, Connecticut and Indiana commenced a coordinated risk-focused financial examination for the five year period ended December 31, 2016, covering Prudential and all of its subsidiaries in connection with NJDOBI's role as group-wide supervisor.

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.

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The NAIC’s Investment Risk-Based Capital Working Group has outlined plans to update the RBC factors during 2017 for invested assets including expanding, for RBC purposes, the current six NAIC designations to twenty. Additional adjustments to the RBC calculation are also under consideration by the NAIC, including new charges for longevity risk and operational risk. Due to the ongoing nature of the NAIC’s activities regarding RBC, we cannot determine the ultimate timing of these changes or their impact on RBC or on our financial position.

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.

In June 2016, the NAIC adopted a recommendation that will activate a principles-based reserving approach for life insurance products. Principles-based reserving replaces the reserving methods for life insurance products for which the current formulaic basis for reserves may not accurately reflect the risks or costs of the liability or obligations of the insurer. The principles-based reserving approach has a three-year phase-in period. At the Company's discretion, it may be applied to new individual life business beginning as early as January 1, 2017, and must be applied for all new individual life business issued January 1, 2020 and later. The Company may select different implementation dates for different products. Principles-based reserving will not affect reserves for policies in force prior to January 1, 2017. During 2017, the Company expects to adopt principles-based reserving for its guaranteed universal life products and to introduce updated versions of these products. The updated products are expected to support the principles-based statutory reserve level without the need for captive reserve financing or additional assets under Actuarial Guideline No. 48 (“AG 48”), which is discussed further below. The Company is continuing to assess the impact of this new reserving approach on projected statutory reserve levels and product pricing for its remaining portfolio of individual life product offerings.

As a result of an 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.

Captive Reinsurance Companies. The NAIC’s actuarial guideline known as 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.” AG 48 applies to 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 adopted a revised Credit for Reinsurance Model Law in January 2016 and the Term and Universal Life Insurance Reserving Financing Model Regulation in December 2016 to replace AG 48. The model regulation is consistent with AG 48, and will replace AG 48 in a state upon the state’s adoption of the model law and regulation.

We have used captive reinsurance subsidiaries to finance the 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.

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.

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In September 2015, the NAIC's consultant issued a report with preliminary findings and conclusions covering several sets of ideas for improvements to the current Actuarial Guideline No. 43 ("AG 43") and RBC "C3 Phase II" framework applicable to variable annuities reserve and capital requirements. The proposed improvements include (i) aligning economically-focused hedge assets with liability valuations, (ii) reforming standard scenarios for AG 43 and C3 Phase II, (iii) revising asset admissibility for derivatives and deferred tax assets, and (iv) standardizing capital market assumptions and aligning total asset requirements and reserves. During 2016 the Company participated in a quantitative impact study ("QIS") assessing the efficacy and potential impact of the initial proposal. Results of the QIS led to the issuance of a second proposal on detailed recommendations for revising the current variable annuities reserve and capital framework. In 2017 a second QIS is expected to be conducted to test the latest set of framework revisions. 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, financial position and results of operations.

During 2016 we recaptured the risks related to our variable annuities living benefit riders and certain retirement products that were previously reinsured to our captive reinsurance company in a series of transactions we collectively refer to as the "Variable Annuities Recapture." While we completed the Variable Annuities Recapture in advance of definitive guidance from the NAIC's Variable Annuities Framework for Change, we believe the Variable Annuities Recapture is reasonably aligned with the key concept changes planned under the framework. For information on the Variable Annuities Recapture, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Summary—Variable Annuities Recapture."

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. Many states offer a reimbursement of such assessments in the form of credits against future years' premium taxes. For the years ended December 31, 2016, 2015 and 2014, we paid $1.5 million, $0.6 million and $28.8 million, respectively, in assessments pursuant to state insurance guaranty association laws. The 2014 assessments reflected the Executive Life of New York 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 totaling approximately $47.9 million as of December 31, 2016, for future assessments relating to insurance companies that are currently subject to insolvency proceedings including Penn Treaty Network America Insurance Company, Executive Life of California and Lincoln Memorial Life Insurance Company.

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 DOL 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.

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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.

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 laws, regulations and directives 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. 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. These laws, regulations and directives 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.

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Financial regulators in the U.S. and international jurisdictions in which we operate continue to focus on cybersecurity, including in proposed rulemaking, and have communicated heightened expectations and have increased emphasis in this area in their examinations of regulated entities. In addition, 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.

The NY DFS issued a proposed new cybersecurity regulation in September 2016 and a revised proposal in December 2016. The regulation would require financial institutions regulated by NY DFS, including our insurance subsidiaries licensed in New York, to establish a cybersecurity program. The regulation includes specific technical safeguards as well as requirements regarding governance, incident planning, data management, system testing and regulator notification. The regulation goes into effect on March 1, 2017, subject to any further revisions that may arise as part of the comment process. The Company is taking steps to comply with the regulation.

In addition, in October, 2016, the FRB, FDIC, and Office of the Comptroller of the Currency approved a joint advance notice of proposed rulemaking regarding enhanced cyber risk management standards for certain regulated financial institutions, including Prudential. The standards address governance, management, internal dependency management, external dependency management, incident response, cyber resilience, and situational awareness. The agencies are also considering proposing more stringent "Sector Critical Standards" that would apply to systems "deemed critical to the financial sector."

The Company is monitoring regulatory guidance and rulemaking in this area, and may be subject to increased compliance costs and regulatory requirements as a result of any new requirements. For a discussion of the Company's privacy and information security policies, procedures and standards, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Risk Exposure and Monitoring—Operational Risk Management."

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.

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. In some instances, regulators may impose different, or more rigorous laws and requirements to protect policyholders or their financial system from perceived systemic risk, including regulations governing privacy, consumer protection, employee protection, corporate governance and capital adequacy. These changes may adversely affect our operations, increase compliance costs, and increase 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 in the event of a breach by a partner.

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International Insurance Regulation

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 Financial Services Agency ("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.

Our Japan insurance operations are subject to a consolidated basis capital standard. This standard prescribes the manner in which an insurance company's capital is calculated and is meant to respond to changes in financial markets, improve risk management practices of insurers and consider risks associated with the insurer's subsidiaries. In 2016 the FSA conducted a field test of a potential market based alternative to the SMR framework that closely aligned with components of the IAIS's 2016 field test described below under "—Other—International and Global Regulatory Initiatives." We cannot predict whether changes to the SMR will be adopted, or if they will result in additional capital requirements and compliance costs.

Further changes in solvency regulation from jurisdiction to jurisdiction may arise based on the regulatory standards developed by the Financial Stability Board ("FSB"), IAIS or authorities in the U.S. or the European Economic Area ("EEA"). FSB and IAIS developments are described below under "International and Global Regulatory Initiatives." In 2016 the prudential regulation of insurance and reinsurance companies across the EEA became subject to the Solvency II Directive, including our insurance subsidiaries based in the EEA. This new regime effected 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 imposed, among other things, group level supervision mechanisms.

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.

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, 2016, 2015 and 2014, we paid approximately $24 million, $25 million and $26 million, respectively, based on fixed currency exchange rates, in assessments pursuant to Japanese insurance guaranty association laws.

Other International Regulation

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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 U.K., Hong Kong, Mexico, Germany and Singapore, and participate in investment-related joint ventures in India, Brazil, Italy and China and a retirement related joint venture in Chile. These businesses may provide products such as investment management products and services, mutual funds, separately managed accounts and retirement products. 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.

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 U.K., are also subject to the U.K.'s Anti-Bribery Law, which governs interactions with both governmental and private commercial entities.

In June 2016, the U.K. approved a non-binding referendum to exit the European Union. The formal process for the U.K. to exit from the European Union would ultimately be triggered by the filing of a notice to withdraw and a negotiation between the U.K. and the European Union on the timing and terms of the exit. The outcome of the negotiations will determine the ultimate impact of the exit on our operations and investments in those jurisdictions and may lead to volatility in currency exchange rates and asset prices, as well as changes in regulation. See "General Account Investments—General Account Investments of PFI excluding Closed Block Division—Fixed Maturity Securities—Fixed Maturity Securities and Unrealized Gains (Losses) by Industry Category" for a discussion of our U.K. and European Union related investment exposures and see "Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Retirement—Operating Results" for a discussion of Retirement segment business denominated in pounds sterling.

International Tax Legislation

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 and 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 that was scheduled to increase to 10% on April 1, 2017 has been delayed and is now scheduled to increase to 10% on October 1, 2019. 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.

Other 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 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. The 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. The IAIS has stated its intention to revisit HLA design and calibration prior to the proposed implementation in 2019 to account for changes in related policy measures including the updated G-SII Assessment Methodology, which was published in 2016. Prudential Financial's capital level is expected to be above the initial calibration for both standards.

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The IAIS is also developing the Common Framework ("ComFrame") for the supervision of firms that meet the IAIS' Internationally Active Insurance Group criteria, such as Prudential Financial. 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. In 2016 the IAIS released a public consultation requesting comments on their Risk-based Global Insurance Capital Standard ("ICS") which is the capital adequacy component of ComFrame. The IAIS has committed to conducting further public consultations on the various components of ComFrame prior to its adoption, which would occur in 2019 at the earliest.

In addition to public consultations, the IAIS continues to conduct ongoing field tests of their capital standards, which are intended to help the IAIS refine the standards prior to their scheduled adoption. The 2016 field test focused on development of the ICS and served as the vehicle for voluntary confidential reporting of BCR and HLA results to Prudential Financial's group-wide supervisors. At this time, we cannot predict what additional capital requirements and compliance costs ComFrame, the BCR or HLA would impose on us, if adopted by U.S. group supervisory authorities.

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.

Employees

As of December 31, 2016, we had 49,739 employees and sales associates, including 29,209 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 and Market Conditions

Market fluctuations and general economic and market 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.
- 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—General Account Investments—General Account Investments of PFI excluding Closed Block Division" for a discussion of our exposure to certain market sectors.

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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.

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 invest in lower-yielding instruments, potentially reducing net investment income and constraining our ability to offer certain products. Since many of our policies and contracts have guaranteed minimum interest crediting rates or limit the resetting of interest rates, the spreads could decrease or go 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 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. 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 Union, and in 2016 we experienced volatility in U.K. and European Union related investments as a result of the U.K.'s referendum to exit the European Union.

Risks Relating to Estimates, Assumptions and Valuations

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

We set prices for many of our insurance and annuity products based upon 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 annuity products is also based in part upon policyholder behavior. For example, persistency (the probability that a policy or contract will remain in force) 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.

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 example, 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. Accordingly, significant deviations in actual experience from our pricing assumptions could have an adverse effect on the profitability of our products.

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.

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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 mortality, morbidity and policyholder behavior. 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 or charges 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.

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 profitability and returns on capital associated with these products.

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.

Credit and Counterparty Risks

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

We maintain two committed unsecured revolving credit facilities. We rely on these credit facilities as potential sources 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 these facilities is conditioned on our satisfaction of covenants and other requirements, such as maintenance of a prescribed minimum level of consolidated net worth calculated in accordance with the respective agreement. Our failure to satisfy these covenants or other requirements would restrict our access to the facilities 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 have a material adverse effect on our liquidity, results of operations and financial condition.

A downgrade in our financial strength or credit ratings could potentially, among other things, (1) limit our ability to market products or reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, (2) increase our borrowing costs and potentially make it more difficult to borrow funds and adversely affect the availability of financial guarantees, such as letters of credit, (3) limit our ability to obtain collateralized loans from the Federal Home Loan Bank of New York that can be used as alternative sources of liquidity as described in Note 14 to our Consolidated Financial Statements, (4) cause additional collateral requirements or other required payments under certain agreements, including derivatives, and allow counterparties to terminate derivative agreements, (5) require Prudential Insurance to post a letter of credit in the amount of approximately $1.5 billion as described further under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Ratings" and (6) hurt our relationships with creditors, distributors, reinsurers or trading counterparties thereby potentially negatively affecting our profitability, liquidity and capital.

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.

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.

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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, 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, non-performance risk or other reasons. We may 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 guidance and rules governing variable annuities, including with regard to reserving, capital, accounting, derivative use limitations and disclosure, which may ultimately impact how we hedge our variable annuity risks and adversely affect our capital, financial position and results of operations. See “Business—Regulation—Insurance Operations—State Insurance Regulation—Financial Regulation—Variable Annuities.”

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 of January 1, 2015, we are subject to a new actuarial guideline known as AG 48 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 “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.

We expect to have additional financing needs for certain life insurance 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, reduce our sales of certain life products, or modify certain products, any of which could adversely affect our competitiveness, capital and financial position and results of operations. See “Business—Regulatory Regulation—Insurance Operations—State Insurance Regulation—Financial Regulation—Insurance Reserves and Regulatory Capital” for information on the impact of principles based reserving on our universal life products.

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

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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.

We have a large captive distribution channel, in particular our Life Consultant network in Gibraltar Life, and we are subject to the risk that our monitoring and controls will not detect inappropriate sales practices or misconduct by our agents. In addition, 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 in an inappropriate manner, or to customers for whom they are unsuitable, or distributors of our products otherwise engage in misconduct, 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. , U.S. and Japanese financial regulators have also enhanced their regulation of Prudential Financial to achieve a number of regulatory objectives. This additional regulation has increased 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 standards, including capital requirements, or other costs any new group-wide standards will impose on Prudential Financial. See “Business—Regulation—Insurance Holding Company Regulation—Group-Wide Supervision.”

As a result of an 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. 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.

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. See “Business—Regulation—Insurance Operations—State Insurance Regulation—Captive Reinsurance Companies” for information on AG 48, and 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.

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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. 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. See "Business—Regulatory Regulation—Insurance Operations—State Insurance Regulation—Financial Regulation—Variable Annuities" for information on the Variable Annuities Framework for Change.

Other NAIC or state insurance regulatory actions, such as the adoption of principles-based reserving or changes to RBC calculations, may adversely impact our business from time to time. See "Business—Regulatory Regulation—Insurance Operations—State Insurance Regulation—Financial Regulation—Insurance Reserves and Regulatory Capital" for information on principles based reserving, and "Business—Regulatory Regulation—Insurance Operations—State Insurance Regulation—Financial Regulation—Risk Based Capital" for information on potential changes to RBC calculations.

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.

As a "Designated Financial Company" pursuant to Dodd-Frank, we are subject 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 require us to hold or raise additional capital or liquid assets, potentially affecting capital deployment activities, including buying back shares or paying dividends. Finally, we cannot predict how President Trump's February 2017 executive order outlining the Administration's core principles for regulation of the financial system, or future legislation, will impact Dodd-Frank or the Company. Key aspects of Dodd-Frank's impact on us include:

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- As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the FRB and to stricter prudential standards, which include or may 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. Dodd-Frank also requires us to 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.
- Dodd-Frank created a new framework for regulation of the OTC derivatives markets which could impact various activities of PGF, Prudential Financial and our 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 the potential hedging cost impacts of new initial margin requirements that we will be required to comply with in 2020, and 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 the DOL’s new fiduciary Rules, could adversely affect our business, results of operations, cash flows and financial condition.

In April 2016, the DOL issued new Rules that redefine who will be considered a “fiduciary” for purposes of transactions with qualified plans, plan participants and IRAs. The Rules generally provide that advice to a plan participant or IRA owner will be treated as a fiduciary activity. We cannot predict how President Trump’s February 2017 direction to the DOL to review the Rules will impact the Rules or their implementation date. Overall, if enacted in their current form, the Rules will result in increased compliance costs and may create increased exposure to legal claims under certain circumstances, including class actions. We believe the Rules will primarily impact our Individual Annuities, Retirement and Asset Management segments and our Prudential Advisors distribution system which we include in the results of our Individual Life segment. See “Business—Regulation—Other U.S. Federal Regulation—DOL Fiduciary Rule” for a discussion of the expected impacts of the Rules on our businesses. In addition to these impacts, our compliance with the Rules could lead to a loss of customers and revenues, and otherwise adversely affect our business, results of operations, cash flows and financial condition.

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In addition to the Rules 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 BCR and HLA standards 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 which also may be adopted by the IAIS as early as 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. In 2016 the FSA conducted a field test of a potential market based alternative to the SMR framework that closely aligned with components of the IAIS’s 2016 field test. 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.

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 Union. In addition, we cannot predict the impact of any regulatory changes that may be enacted as a result of the U.K’s approval of a non-binding referendum to exit the European Union in June 2016.

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

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 long duration 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. In addition, the International Accounting Standards Board is scheduled to release a new International Financial Reporting Standard ("IFRS") for insurance contracts sometime in 2017 with an expected effective date of 2021. In Japan, changes in IFRS do not currently impact our operations as they are not required to report under IFRS. In Korea, the local insurance regulators assess solvency based in part on financial statements prepared in accordance with IFRS. As such, the financial statement impact of changes in IFRS may increase the amount of capital required in our Korean insurance operation. At the same time, the Korean insurance regulator has announced plans to pursue enhancements to their capital standards and the ultimate impact on capital requirements is uncertain. Further, changes in accounting standards may impose special demands 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.

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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 by reducing or eliminating certain tax expenditures. Overall lower effective individual tax rates could make our products less attractive to customers. It is unclear whether or when Congress may take up overall tax reform and what the impact tax reform will have on the Company and its products. However, even in the absence of overall tax reform, Congress could enact more piecemeal tax legislation that would change the company's tax profile, make our products less competitive and adversely impact our capital position.

Current U.S. federal income tax laws generally permit certain holders to defer taxation on the inside build-up of investment value of annuities and life insurance products until there are contract distributions and, in general, 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. 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. See "Business—Regulation—Other U.S. Federal Regulation—U.S. Tax Legislation" for examples of proposed changes that could increase our actual tax expense and reduce our consolidated net income.

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.

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 state and 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.

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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.

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.

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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 security breaches and service disruptions related to 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, denial-of-service 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 and disruptions 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. See “Business—Regulation—Privacy Regulation and Cybersecurity” for a discussion of privacy and cybersecurity regulation and regulatory proposals impacting our business.

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.

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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, morbidity or policyholder behavior, 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).

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 variable, and would depend on numerous factors, including the effectiveness of vaccines and the rate of contagion, the regions of the world most affected and the effectiveness of treatment for the infected population.

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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. Ultimate losses would depend on the rates of mortality and morbidity among various segments of the insured population, the collectability of reinsurance, the possible macroeconomic effects on our asset portfolio, the effect on lapses and surrenders of existing policies, as well as sales of new policies and other variables.

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 and pandemics. In addition, climate change regulation may affect the prospects of companies and other entities whose securities we hold, or our willingness to continue to hold their securities. It may also impact 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.

Finally, we use affiliates and third-party vendors located outside the U.S. to provide certain services and functions, which also exposes us to business disruptions and political risks as a result of risks inherent in conducting business outside of the U.S.

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, changing customer expectations, including related to digital offerings, 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.

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 17, 2017, were as follows:

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Name	Age	Title	Other Public Directorships
John R. Strangfeld	63	Chairman, Chief Executive Officer and President	None
Mark B. Grier	64	Vice Chairman	None
Robert M. Falzon	57	Executive Vice President and Chief Financial Officer	None
Timothy P. Harris	56	Executive Vice President and General Counsel	None
Charles F. Lowrey	59	Executive Vice President and Chief Operating Officer, International Businesses	None
Stephen Pelletier	63	Executive Vice President and Chief Operating Officer, U.S. Businesses	None
Barbara G. Koster	62	Senior Vice President and Chief Information Officer	None
Richard F. Lambert	60	Senior Vice President and Chief Actuary	None
Nicholas C. Silitch	55	Senior Vice President and Chief Risk Officer	None
Scott G. Sleyster	57	Senior Vice President and Chief Investment Officer	None
Sharon C. Taylor	62	Senior Vice President, Human Resources	New Jersey Resources

Biographical information about Prudential Financial executive officers is as follows:

John R. Strangfeld 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.

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.

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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, 2016, we own eight and lease eleven 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, 2016, we own seven 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 530 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, 2016, we lease two home offices located in Japan and Taiwan. We also lease 13 international principal properties located in Mexico, Japan, Hong Kong, Singapore, Korea, Germany, Australia, France, Luxembourg and the U.K., in addition to approximately ten other branch and field offices within Europe, Asia and Australia.

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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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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
2016:			
Fourth Quarter	$107.10	$81.43	$ 0.70
Third Quarter	$81.65	$68.74	$ 0.70
Second Quarter	$79.71	$66.93	$ 0.70
First Quarter	$79.84	$58.00	$ 0.70
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

On January 31, 2017, there were 1,344,180 registered holders of record for the Common Stock and 430 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, 2016 of its Common Stock.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs(2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under These Programs(2)
October 1, 2016 through October 31, 2016	2,480,429	$ 84.09	2,477,474	
	2,198,777	$ 94.79	2,197,943	

November 1, 2016 through November 30, 2016					
December 1, 2016 through December 31, 2016	1,989,078	$ 104.98	1,984,520		
Total	6,668,284	$ 93.85	6,659,937	$	0

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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 Company's Omnibus Incentive Plan.

(2) 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 during the period from January 1, 2016 through December 31, 2016. Effective January 1, 2016, this authorization superseded the Company's previous $1.0 billion share repurchase authorization that was announced in June 2015, covering the period from July 1, 2015 through June 30, 2016. In August 2016, the Board of Directors authorized a $500 million increase to this authorization for calendar year 2016. As a result, the Company's aggregate share repurchase authorization for the full year 2016 was $2.0 billion.

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In December 2016, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to $1.25 billion of its outstanding Common Stock during the period from January 1, 2017 through December 31, 2017.

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated income statement data for the years ended December 31, 2016, 2015 and 2014, and the selected consolidated balance sheet data as of December 31, 2016 and 2015, from our Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 2013 and 2012, and the selected consolidated balance sheet data as of December 31, 2014, 2013 and 2012, from consolidated financial statements not included herein.

See Note 3 to the Consolidated Financial Statements for a discussion of acquisitions and dispositions during 2016, 2015 and 2014.

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.

Our Gibraltar Life operations use a November 30 fiscal year end. Consolidated balance sheet data as of December 31, 2016, 2015, 2014, 2013 and 2012, include Gibraltar Life assets and liabilities as of November 30 for each respective year. Consolidated income statement data for the years ended December 31, 2016, 2015, 2014, 2013 and 2012, 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 our MD&A and Consolidated Financial Statements included elsewhere herein.

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	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$30,964	$28,521	$29,293	$26,237	$65,354
Policy charges and fee income	5,906	5,972	6,179	5,415	4,489
Net investment income	15,520	14,829	15,256	14,729	13,661
Asset management and service fees	3,752	3,772	3,719	3,485	3,053
Other income (loss)	443	0	(1,978)	(3,199)	(269)
Realized investment gains (losses), net	2,194	4,025	1,636	(5,206)	(1,441)
Total revenues	58,779	57,119	54,105	41,461	84,847
Benefits and expenses:					
Policyholders' benefits	33,632	30,627	31,587	26,733	65,131
Interest credited to policyholders' account balances	3,761	3,479	4,263	3,111	4,234
Dividends to policyholders	2,025	2,212	2,716	2,050	2,176
Amortization of deferred policy acquisition costs	1,877	2,120	1,973	240	1,504
General and administrative expenses	11,779	10,912	11,807	11,011	11,094
Total benefits and expenses	53,074	49,350	52,346	43,145	84,139
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	5,705	7,769	1,759	(1,684)	708
Total income tax expense (benefit)	1,335	2,072	349	(1,058)	213
Income (loss) from continuing operations before equity in earnings of operating joint ventures	4,370	5,697	1,410	(626)	495
Equity in earnings of operating joint ventures, net of taxes	49	15	16	59	60
Income (loss) from continuing operations	4,419	5,712	1,426	(567)	555
Income (loss) from discontinued operations, net of taxes	0	0	12	7	15
Net income (loss)	4,419	5,712	1,438	(560)	570
Less: Income (loss) attributable to noncontrolling interests	51	70	57	107	50
Net income (loss) attributable to Prudential Financial, Inc.	$4,368	$5,642	$1,381	$(667)	$520
EARNINGS PER SHARE(1)					
Basic earnings per share—Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$9.85	$12.37	$3.23	$(1.57)	$1.02
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.02	0.02	0.04
Net income (loss) attributable to Prudential Financial, Inc.	$9.85	$12.37	$3.25	$(1.55)	$1.06
Diluted earnings per share—Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$9.71	$12.17	$3.20	$(1.57)	$1.01
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.03	0.02	0.04
Net income (loss) attributable to Prudential Financial, Inc.	$9.71	$12.17	$3.23	$(1.55)	$1.05
Dividends declared per share—Common Stock	$2.80	$2.44	$2.17	$1.73	$1.60
Ratio of earnings to fixed charges(2)	2.10	2.64	1.25	0.00	1.11

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	As of December 31,				
	2016	2015	2014	2013	2012
	(in millions)				
Balance Sheet Data:					
Total investments excluding policy loans	$432,485	$405,535	$408,274	$386,407	$394,007
Separate account assets	287,636	285,570	296,435	285,060	253,254
Total assets(3)	783,962	757,255	766,526	731,638	709,084
Future policy benefits and policyholders' account balances	386,113	361,168	353,916	343,516	350,463
Separate account liabilities	287,636	285,570	296,435	285,060	253,254
Short-term debt(3)	1,133	1,216	3,839	2,668	2,484
Long-term debt(3)	18,041	19,594	19,702	23,411	24,578
Total liabilities(3)	737,874	715,332	724,177	695,757	669,972
Prudential Financial, Inc. equity	45,863	41,890	41,770	35,278	38,503
Noncontrolling interests	225	33	579	603	609
Total equity	$46,088	$41,923	$42,349	$35,881	$39,112

(1) For 2016 and 2015, represents consolidated earnings per share of Common Stock. For 2014, 2013, and 2012, 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.

(3) Prior periods are presented on a basis consistent with the current period presentation, reflecting the adoption of ASU 2015-03 which was effective January 1, 2016.

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

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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. The Closed Block division 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.

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.

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.

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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, the U.S. Department of Labor's new fiduciary rules and potential changes in U.S. tax legislation. See "Risk Factors—Regulatory and Legal Risks" for a discussion of the risks associated with these and other developments.

Demographics. Customer demographics continue to evolve and new opportunities present themselves in different consumer segments such as the millennial and multicultural markets. Consumer expectations and preferences are changing. We believe existing customers and potential customers are increasingly looking for cost-effective solutions that they can easily understand and access through technology-enabled devices. At the same time, income protection, wealth accumulation and the needs of retiring baby boomers are continuing to shape the insurance industry. A persistent retirement security gap exists in terms of both savings and protection. Despite the ongoing phenomenon of the risk and responsibility of retirement savings shifting from employers to employees, employers are becoming increasingly focused on the financial wellness of the individuals they employ. Although 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, consumer awareness of the value proposition that life insurance provides is believed to be on the rise.

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.

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 low interest rates, 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 other 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.

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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 2016. Market conditions and events, including but not limited to the United Kingdom ("U.K.") referendum to leave the European Union contrasted with strengthening economic growth and job creation, make uncertain the timing and amount of future monetary policy decisions by the Federal Reserve. Given this current low rate environment, 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 and, as a result, our overall portfolio yields are expected to continue to decline.

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 2018. The general account for these operations has approximately $183 billion of such assets (based on net carrying value) as of December 31, 2016. As these assets mature, the average portfolio yield for fixed maturities and commercial mortgage loans of approximately 4.5%, as of December 31, 2016, is expected to decline due to reinvesting in a lower interest rate environment.

Included in the $183 billion of fixed maturity securities and commercial mortgage loans are approximately $92 billion that are subject to call or redemption features at the issuer's option and have a weighted average interest rate of approximately 5%. Of this $92 billion, approximately 70% contains provisions for prepayment premiums. The reinvestment of scheduled payments 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, 2016, these operations have approximately $180 billion of insurance liabilities and policyholder account balances. Of this amount, approximately $110 billion 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.

The $180 billion of insurance liabilities and policyholder account balances also includes approximately $55 billion related to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Although we may have the ability to lower crediting rates for those contracts above guaranteed minimums, our willingness to do so may be limited by competitive pressures.

The following table sets forth the related account values by range of guaranteed minimum crediting rates and the related range of the difference, in basis points ("bps"), between rates being credited to contractholders as of December 31, 2016, and the respective guaranteed minimums.

	Account Values with Adjustable Crediting Rates Subject to Guaranteed Minimums:					
	At guaranteed minimum	1 - 49 bps above guaranteed minimum	50 - 99 bps above guaranteed minimum	100 - 150 bps above guaranteed minimum	Greater than 150 bps above guaranteed	Total

					minimum	
	($ in billions)					
Range of Guaranteed Minimum Crediting Rates:						
Less than 1.00%	$0.6	$ 0.9	$ 0.3	$ 0.0	$ 0.0	$1.8
1.00% - 1.99%	1.8	12.5	3.0	1.2	0.1	18.6
2.00% - 2.99%	2.0	0.5	1.8	1.1	0.1	5.5
3.00% - 4.00%	27.4	0.5	0.2	0.1	0.0	28.2
Greater than 4.00%	0.8	0.0	0.0	0.0	0.0	0.8
Total(1)	$32.6	$ 14.4	$ 5.3	$ 2.4	$ 0.2	$54.9
Percentage of total	60 %	26 %	10 %	4 %	0 %	100 %

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(1) Includes approximately $1.2 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity.

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The remaining $15 billion of the $180 billion of insurance liabilities and policyholder account balances in these operations represent participating contracts for which the investment income risk is expected to ultimately accrue to contractholders. The crediting rates for these contracts are periodically adjusted based on the return earned on the related assets.

Assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 2.45% for the period from January 1, 2017 through December 31, 2018, and credit spreads remain unchanged from levels as of December 31, 2016, 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 $9 million in 2017 and $26 million in 2018. 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 $55 billion of contracts shown in the table above, and does not reflect: 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; any impact related to assets that do not directly support our liabilities; any impact from other factors, including but not limited to, new business, contractholder behavior, product modifications, changes in product offerings, changes in competitive conditions or changes in capital markets; or any impact from other factors described below. See "—Segment Measures" for a discussion of adjusted operating income and its use as a measure of segment operating performance.

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

Closed Block Division

Substantially all of the $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.

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

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As of December 31, 2016, our Japanese operations have $148 billion of insurance liabilities and policyholder account balances. Of this amount, approximately $117 billion is 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. The remaining insurance liabilities and policyholder account balances include $23 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity and $8 billion related to contracts 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.

Assuming a hypothetical scenario within our Japanese and Korean operations where 2017 new money yields would be 25 basis points lower than projected, and applying these lower new money yields to annualized investment of renewal premiums, proceeds from investment disposition and reinvestment of investment income, we estimate that the unfavorable impact to net interest margins would reduce adjusted operating income in 2017 by approximately $10 to $15 million. This hypothetical scenario excludes first-year single premium and multi-currency fixed annuity cash flows, any potential benefit from repricing products, and any impact from other factors, including but not limited to new business, contractholder behavior, changes in competitive conditions, changes in capital markets, and the effect of derivative instruments.

Outlook

Management expects that results in 2017 will continue to benefit from our complementary mix of high quality Protection, Retirement and Asset Management businesses. This business mix provides a diversity in earnings sources, which helps offset variability in business results or fluctuations in market conditions, while offering growth opportunities. While challenges exist in the form of a low interest rate environment (see “Impact of a Low Interest Rate Environment”), the near-term impacts of strategic investment spending (see further below) and an evolving regulatory environment (see “Business—Regulation”), we expect that our choice of businesses coupled with strong execution will produce attractive returns. In addition, outlook considerations for each of our divisions include the following:

- U.S. Retirement and Investment Management Market. We will seek to continue our established leadership position in providing retirement and investment solutions for a U.S. market that is increasingly demanding cost-effective solutions that can be easily understood and accessed through technology-enabled distribution methods. There continues to be uncertainty around the impact the DOL fiduciary rule will have on sales and flows. However, we expect to benefit from our product diversification strategy and to improve our risk profile while meeting a broad range of client needs through ongoing product innovation. Our Individual Annuities business remains focused on helping its customers meet their investment and retirement needs. The recapture of living benefit risks from our reinsurance captive to our statutory insurance entities along with our enhanced risk management strategies are expected to contribute to higher free cash flows and improved capital stability, while also providing an ongoing benefit to our operating results. In our Retirement business we continue 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. We believe there are growth opportunities in pension risk transfer as companies are becoming more aware of the potential impact of longevity risk and higher Pension Benefit Guaranty Corporation premiums, although we expect growth will not be linear given the episodic nature of larger cases. While we continue to see fee and spread compression, we believe these are manageable headwinds. Our Asset Management business, or PGIM, is focused on meeting clients’ evolving needs and capturing opportunities in the marketplace. We are making substantial investments in our multi-manager model as well as in our talent, infrastructure and other distribution capabilities in order to capitalize on a business that we believe has strong growth opportunities.

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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. Our Individual Life business is continuing to execute on its product diversification strategy in order to maintain a diversified product mix and an attractive risk profile. We are expanding the reach of our multichannel distribution network, including the Prudential Advisors channel, and are building predictive underwriting and other capabilities. In our Group Insurance business, we are seeing benefits from our multi-year underwriting efforts, especially in disability, and we are expanding our market segment focus to include mid-market clients. We are also continuing to focus on rigorous expense management, with an objective of further improving our return prospects over time.

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- International Markets. We will continue to concentrate on deepening our presence in Japan and other markets in which we currently operate and expanding our distribution capabilities in emerging markets. Our death protection products with returns largely driven by mortality or expense margins help mitigate exposure of results to interest rates. We will continue to take steps to re-price or in some cases suspend sales of products most effected by low and negative rates in Japan. With regard to distribution, we are seeking modest growth in our Life Planner and Life Consultant count in Japan, as well as expansion of our third-party distribution networks. Furthermore, we have newer markets that we seek to develop in order to contribute more meaningfully to our growth over time, such as our insurance operation in Brazil, which we have built organically, and our investment in a leading provider of retirement services in Chile.

In order to capitalize on the growth opportunities in our domestic and international markets highlighted above, we continue to make investments in and across our businesses. We are investing in expanding our distribution capabilities through a focus on customer experience and technology enabled advice and distribution, cross-business collaboration, further development of work site relationships with individuals and expanding our ability to offer relevant products and services to customers through whichever channels they choose. We are also investing in product innovation, through the use of data and digital initiatives to better understand and serve the needs of a customer base with changing demographics, to achieve a goal of offering a broader array of cost effective and easily comprehensible products. In addition, we are making investments in our information technology infrastructure in order to streamline processes and enhance the effectiveness of our administrative systems.

While we expect these strategic investments to ultimately generate business growth, they will result in elevated expenses in the near-term. In addition, we expect the time periods required for these investments to generate returns to vary. These investments are being funded through a combination of operating cost efficiencies and the returns generated by our businesses, and we expect to be able to continue to absorb some of these investment costs through efficiency gains.

Results of Operations

Consolidated Results of Operations

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

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Revenues	$58,779	$57,119	$54,105
Benefits and expenses	53,074	49,350	52,346
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	5,705	7,769	1,759
Income tax expense (benefit)	1,335	2,072	349
Income (loss) from continuing operations before equity in earnings of operating joint ventures	4,370	5,697	1,410
Equity in earnings of operating joint ventures, net of taxes	49	15	16
Income (loss) from continuing operations	4,419	5,712	1,426
Income (loss) from discontinued operations, net of taxes	0	0	12
Net income (loss)	4,419	5,712	1,438
Less: Income attributable to noncontrolling interests	51	70	57
Net income (loss) attributable to Prudential Financial, Inc.	$4,368	$5,642	$1,381

2016 to 2015 Annual Comparison. The decrease in “Income (loss) from continuing operations” reflected the following notable items:

- $980 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, including the impact of our annual reviews and update of assumptions and other refinements. This excludes the impact associated with the variable annuity hedging program discussed below (see “—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities” for additional information);

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- $972 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 (see "—Results of Operations by Segment—Corporate and Other—Capital Protection Framework" for additional information); and

- $479 million lower net pre-tax realized gains for PFI excluding the Closed Block division, and excluding the impact of the hedging program associated with certain variable annuities, which is discussed below (see "—Realized Investment Gains (Losses)" for additional information).

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

- $737 million favorable impact of lower tax expense reflecting lower pre-tax income in 2016 compared to 2015; and

- $660 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 other products (see "—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities—Variable Annuity Risks and Risk Mitigants" for additional information).

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

- $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 "—Impact of Foreign Currency Exchange Rates—Impact of products denominated in non-local currencies on U.S. GAAP earnings" 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 Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities—Variable Annuity Risks and Risk Mitigants" 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 reviews 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 for PFI excluding the Closed Block division, and excluding the impact of the hedging program associated with certain variable annuities discussed above (see "—Realized Investment Gains (Losses)" for additional information).

Segment Results of Operations

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

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

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Adjusted operating income before income taxes by segment:			
Individual Annuities	$1,765	$1,797	$1,467
Retirement	1,012	931	1,215
Asset Management	787	779	785
Total U.S. Retirement Solutions and Investment Management division	3,564	3,507	3,467
Individual Life	79	635	498
Group Insurance	220	176	23
Total U.S. Individual Life and Group Insurance division	299	811	521
International Insurance	3,117	3,226	3,252
Total International Insurance division	3,117	3,226	3,252
Corporate and Other operations	(1,581)	(1,313)	(1,348)
Total Corporate and Other	(1,581)	(1,313)	(1,348)
Total segment adjusted operating income before income taxes	5,399	6,231	5,892
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments(1)	989	2,258	(3,588)
Charges related to realized investment gains (losses), net(2)	(466)	(679)	(542)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	(17)	(524)	339
Change in experience-rated contractholder liabilities due to asset value changes(4)	21	433	(294)
Divested businesses:			
Closed Block division(5)	(132)	58	0
Other divested businesses(6)	(84)	(66)	167
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(7)	(5)	58	44
Subtotal(8)	5,705	7,769	2,018
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business(9)	0	0	(259)
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$5,705	$7,769	$1,759

(1) Represents "Realized investment gains (losses), net," and related adjustments. See "—Realized Investment Gains and 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 DAC and other costs, and on changes in reserves. Also includes charges resulting from payments related to market value adjustment features of certain of our annuity products and the impact of realized investment gains (losses), net, on the amortization of unearned revenue reserves.

(3) Represents 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 years ended December 31, 2016 and 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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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 an after-tax U.S. GAAP basis as a separate line in our Consolidated Statements of Operations.

(7) 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 year ended December 31, 2014 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 year ended December 31, 2014.

Segment results for 2016 presented above reflect the following:

Individual Annuities. Segment results for 2016 decreased in comparison to 2015, primarily reflecting lower net asset-based fee income, higher general and administrative expenses, and an unfavorable comparative impact from changes in the estimated profitability of the business, partially offset by higher net investment income, lower amortization costs and interest expense, and the absence of certain costs for contract cancellations incurred in the prior year.

Retirement. Segment results for 2016 increased in comparison to 2015, reflecting higher net investment spread results and a favorable comparative net impact from our annual reviews and update of assumptions, partially offset by a lower contribution from reserve experience, higher general and administrative expenses, net of capitalization, and lower fee income.

Asset Management. Segment results for 2016 increased in comparison to 2015, primarily reflecting higher asset management fees, net of expenses, partially offset by lower other related revenues, net of associated expenses.

Individual Life. Segment results for 2016 decreased in comparison to 2015, primarily reflecting an unfavorable comparative net impact from our annual reviews and update of assumptions, less favorable mortality experience, net of reinsurance, as well as higher general and administrative expenses, partially offset by a higher contribution from investment results.

Group Insurance. Segment results for 2016 increased in comparison to 2015, including a favorable comparative net impact from our annual reviews and update of assumptions. Excluding these items, results increased from 2015 reflecting net favorable underwriting results, higher net investment spread results and lower expenses.

International Insurance. Segment results for 2016 decreased in comparison to 2015, primarily from net unfavorable impacts from foreign currency exchange rates and from our annual reviews and update of assumptions. Excluding these items, segment results increased from the prior year, reflecting the growth of business in force, including the contribution from the Company's investment in AFP Habitat in Chile, and more favorable mortality experience, partially offset by lower contributions from net investment spread results and higher net expenses, including those supporting business growth.

Corporate and Other operations. The results for 2016 in comparison to 2015 reflected increased losses primarily driven by higher levels of corporate expenses, lower net investment income and lower income from our qualified pension plan, partially offset by lower interest expense.

Closed Block Division. The results for 2016 decreased in comparison to 2015, primarily driven by a decrease in net realized investment gains and lower net investment income, partially offset by a decrease in the policyholder dividend obligation and an increase in the net insurance activity results.

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 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 "—Segment 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.

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

Impact of Foreign Currency Exchange Rates

Foreign currency exchange rate movements and related hedging strategies

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are subject to foreign currency exchange rate movements that could impact our U.S. dollar-equivalent earnings and 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 certain of our businesses are subject to currency fluctuations that could 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, 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 reported U.S. GAAP earnings. As a result of continued growth in these portfolios, we implemented a structure in Gibraltar Life in the first quarter of 2015 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, as described further below under "—Impact of products denominated in non-local currencies on U.S. GAAP earnings."

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," below.

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.

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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.

	December 31, 2016	December 31, 2015
	(in billions)	
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent earnings:		
Forward currency hedging program(1)	$ 1.6	$ 1.9
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	12.6	13.0
Other	0.1	0.1
Subtotal	12.7	13.1
Dual currency and synthetic dual currency investments(3)	0.7	0.8
Total instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity	13.4	13.9
Total hedges	$ 15.0	$ 15.8

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(1) Represents the notional amount of forward currency contracts outstanding.

(2) Excludes $36.2 billion and $30.5 billion as of December 31, 2016 and 2015, respectively, of U.S. dollar-denominated assets supporting U.S. dollar-denominated liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations.

(3) 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-denominated cash flows.

The U.S. dollar-denominated investments that hedge U.S. dollar-equivalent earnings and shareholder return on equity from our Japanese insurance operations are reported within yen-based entities and, as a result, foreign currency exchange rate movements will impact their value reported within our yen-based Japanese insurance entities. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of these 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, 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

The financial results of our International Insurance, Retirement and Asset Management segments reflect the impact of intercompany arrangements with our Corporate and Other operations pursuant to which certain of these segments' non-U.S. dollar-denominated earnings are translated at fixed currency exchange rates. Results of our Corporate and

Other operations include any differences between the translation adjustments recorded by the segments at the fixed currency exchange rate versus the actual average rate during the period. In addition, specific to our International Insurance segment where we hedge certain currencies, as further discussed below, the results of our Corporate and Other operations also include the impact of any gains or losses recorded from 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.

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For International Insurance, the fixed currency exchange 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 U.S. dollar-denominated products and investments. For the twelve months ended December 31, 2016, approximately 29% of the segment's earnings were yen-based and, as of December 31, 2016, we have hedged 100%, 73% and 28% of expected yen-based earnings for 2017, 2018 and 2019, 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.

As a result of this intercompany arrangement, our International Insurance segment's results for 2016, 2015 and 2014 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 106, 91 and 82 yen per U.S. dollar, respectively, and Korean won-denominated earnings at fixed currency exchange rates of 1100, 1120 and 1150 Korean won per U.S. dollar, respectively. We expect our results for 2017 to reflect the impact of translating yen-denominated earnings at a fixed currency exchange rate of 112 yen per U.S. dollar and Korean won-denominated earnings at a fixed currency exchange rate of 1130 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.

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

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Segment impacts of intercompany arrangements:			
International Insurance	$23	$331	$275
Retirement	9	0	0
Asset Management	6	0	0
Impact of intercompany arrangements(1)	38	331	275
Corporate and Other operations:			
Impact of intercompany arrangements(1)	(38)	(331)	(275)
Settlement gains (losses) on forward currency contracts(2)	38	286	293
Net benefit (detriment) to Corporate and Other operations	0	(45)	18
Net impact on consolidated revenues and adjusted operating income	$38	$286	$293

(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 foreign currency income hedging program.

(2) As of December 31, 2016 and 2015, the notional amounts of these forward currency contracts within our Corporate & Other operations were $2.7 billion and $2.4 billion, respectively, of which $1.6 billion and $1.9 billion, respectively, were related to our Japanese insurance operations.

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

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Our international insurance operations primarily offer products denominated in local currency; however, several of our international insurance operations also offer products denominated in non-local currencies, most notably our Japanese operations, which offer U.S. and Australian dollar-denominated products. The non-local currency-denominated insurance liabilities related to these products are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While the impact from foreign currency exchange rate movements on these non-local currency-denominated assets and liabilities is economically matched, differences in the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements have historically resulted in volatility in U.S. GAAP earnings. For example, unrealized gains (losses) on available-for-sale investments, including those arising from non-local currency exchange rate movements, are recorded in AOCI, whereas the non-local 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-local currency-denominated liabilities, and certain related non-local currency-denominated assets, were excluded from adjusted operating income and included in "Realized investment gains (losses), net, and related adjustments." Included in "Realized investment gains (losses), net, and related adjustments" were net losses of $170 million, net gains of $63 million and net losses of $3,073 million from foreign currency remeasurement for the years ended December 31, 2016, 2015 and 2014, respectively.

As discussed above, 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. For the U.S. and Australian dollar-denominated assets that were transferred under this structure, 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, 2016, the remaining net cumulative unrealized investment gains balance related to these assets was $4.4 billion. Absent the sale of any of these assets prior to their stated maturity, approximately 9% of the $4.4 billion balance will be recognized in 2017, approximately 8% will be recognized in 2018, and a majority of the remaining balance will be recognized from 2019 through 2024.

Variable Annuities Recapture and Risk Management Strategy

Effective April 1, 2016, we recaptured the risks related to our variable annuities living benefit riders and certain retirement products that were previously reinsured to our captive reinsurance company, Pruco Reinsurance, Ltd. ("Pruco Re"). These risks were recaptured by the originating insurance entities, thereby combining those risks with their base contracts. In addition, variable annuity contracts issued by Pruco Life Insurance Company ("Pruco Life"), a subsidiary of Prudential Insurance, were reinsured to our subsidiary, Prudential Annuities Life Assurance Corporation ("PALAC") while variable annuity contracts issued by Pruco Life Insurance Company of New Jersey ("PLNJ"), a subsidiary of Pruco Life, were reinsured to Prudential Insurance. These series of transactions are collectively referred to as the "Variable Annuities Recapture."

The Variable Annuities Recapture allows us to manage the capital and liquidity risks of these products more efficiently by aggregating both the risks and the assets supporting these risks in the same entities. The Variable Annuities Recapture resulted in an increase of highly liquid assets at Prudential Financial of approximately $1.0 billion, due to payments received from subsidiaries in the form of dividends, returns of capital, and repayments under affiliate loan agreements, net of capital contributions, and is expected to reduce future capital volatility associated with our variable annuities business.

In connection with this transaction, we evaluated the overall risk management strategy associated with our Individual Annuities segment, including potential future enhancements to the living benefits hedging program. During the third quarter of 2016, we implemented modifications to the Individual Annuities' risk management strategy in order to more efficiently manage the capital and liquidity associated with these products while continuing to mitigate fluctuations in net income due to capital market movements. These modifications include utilizing a combination of traditional fixed income instruments and derivatives to manage the associated risks. For more information on the hedging portion of Individual Annuities' risk management strategy and the results of that hedging strategy, see "Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities."

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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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 mainly as an inducement to purchase the contract. For additional information about sales inducements, see Note 11 to the Consolidated Financial Statements. We generally amortize DAC and 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, 2016, DAC and DSI for PFI excluding the Closed Block division were $17.3 billion and $1.1 billion, respectively, and DAC in our Closed Block division was $336 million.

Amortization methodologies

Gross Premiums. 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 primarily amortized in proportion to gross premiums.

Gross Profits. 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 optional 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.”

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Gross Margins. 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, 2016, the excess of actual cumulative earnings over the expected cumulative earnings was $1,647 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, 2016.

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, 2016, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 5.6% 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.

DAC and DSI Sensitivities

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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 primarily 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, 2016 was $3.3 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, 2016 Increase/(Decrease) in DAC (in millions)	
Decrease in future mortality by 1%	$	50
Increase in future mortality by 1%	$	(50)

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 2016, valuation system conversion and methodology changes drove the most significant changes to amortization expense.

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 $1.1 billion, respectively, as of December 31, 2016. 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, 2016	
	Increase/ (Decrease) in DAC	Increase/ (Decrease) in DSI
	(in millions)	
Decrease in future rate of return by 100 bps	$ (378)	$ (126)
Increase in future rate of return by 100 bps	$ 350	$ 127

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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 2016, updates to lapse assumptions partially offset by updates to mapping of funds to related indices and projected interest rate assumptions, drove the most significant changes to amortization expense.

Value of Business Acquired

In addition to DAC and DSI, we also recognize an asset for 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, 2016, VOBA was $2.3 billion, and included $1.3 billion related to the acquisition from American International Group ("AIG") of AIG Star Life Insurance Co., Ltd, AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K. and AIG Edison Service Co., Ltd. (collectively, the "Star and Edison Businesses") on February 1, 2011, and $0.8 billion related to the acquisition of The Hartford Financial Services Group's individual life insurance business ("the Hartford Life Business") on January 2, 2013. 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, 2016 Increase/(Decrease) in VOBA (in millions)		
Decrease in future mortality by 1%	$	8	
Increase in future mortality by 1%	$	(17	)

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 2016, partial write-down of VOBA due to a loss recognition event drove the most significant changes to amortization expense.

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 which are more predictably stable compared to 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, 2016, our goodwill balance of $833 million is reflected in the following four reporting units: $444 million related to our Retirement Full Service business, $230 million related to our Asset Management business, $147 million related to our Gibraltar Life and Other operations and $12 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. Accounting guidance provides for an optional qualitative assessment for testing goodwill impairment that may allow companies to skip the quantitative two step test. 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 Life Planner business and the Asset Management segment, we did not elect to utilize the option for qualitative analysis and therefore completed a quantitative 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 2017 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 2017 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 did not elect to utilize the option for qualitative analysis and therefore completed a quantitative 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 the first step 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, 2016. The Asset Management, International Insurance Life Planner, Gibraltar Life and Other operations, and Retirement Full Service businesses had estimated fair values that exceeded their carrying amounts, each by at least 45%. Completion of the second step of the quantitative analysis is therefore not necessary.

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 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 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 OTTI 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 and the net reserves continue to be subject to premium deficiency testing.
- For certain reserves, such as those related to 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 optional 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, 2016, represented 43% 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, 2016, represented 23% 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 investment yield 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, 2016, represented 4% 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 optional 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 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, 2016, represented 5% 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, 2016, 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 claim occurs. The reserves for group life and disability benefits include our liability of $2.7 billion for unpaid claims and claim adjustment expenses for our Group Insurance segment as of December 31, 2016, 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 and Claims Incurred But Not Reported. 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 Claims In Course of Settlement reserve is based on the inventory of claims that have been reported but not yet paid. The Claims Incurred But Not Reported 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, 2016, 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, 2016, represented 21% 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.

Profits Followed by Losses

In certain instances, the policyholder liability for a particular line of business may not be deficient in the aggregate to trigger loss recognition, but the pattern of earnings may be such that profits are expected to be recognized in earlier years followed by losses in later years. In these situations, accounting standards require that an additional liability (Profits Followed by Losses or "PFL" liability) be recognized by an amount necessary to sufficiently offset the losses that would be recognized in later years. As a result, in connection with the second quarter assumption updates we recorded a charge to earnings of $444 million to recognize a PFL liability based on our current estimate of the present value of the amount necessary to offset losses anticipated in future periods. Because the liability is measured on a discounted basis, there will also be accretion into future earnings through an interest charge, and the liability will ultimately be released into earnings as an offset to future losses. This PFL liability is predominantly associated with certain universal life contracts that measure GAAP reserves using a dynamic approach and accordingly, will be updated each quarter using current inforce and market data and as part of the annual assumption update.

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."

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	December 31, 2016 Increase/(Decrease) in GMDB/GMIB Reserves (in millions)
Decrease in future rate of return by 100 bps	$ 186
Increase in future rate of return by 100 bps	$ (143)

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 2016, updates to lapse, mortality and utilization rate assumptions, partially offset by updates to projected interest rate assumptions, drove the most significant changes to these reserves.

For certain optional 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 2016, updates to excess withdrawal assumptions and mapping of funds to related indices, partially offset by updates to utilization efficiency 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.

Unearned Revenue Reserve

Our unearned revenue reserve ("URR"), reported as a component of "Policyholders' account balances," was $2.5 billion as of December 31, 2016. 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, 2016 was $2.1 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, 2016 Increase/(Decrease) in URR (in millions)
Decrease in future mortality by 1%	$ 47
Increase in future mortality by 1%	$ (47)

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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 2016, valuation system conversion and methodology changes drove the most significant changes to our URR reserve.

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 2016 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, 2015, 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, 2016	
	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	$ (118)	$ (15)
Decrease in expected rate of return by 100 bps	$ 118	$ 15

Foreign pension plans represent 5% of plan assets at the beginning of 2016. 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 $5 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 the Consolidated Financial Statements for information regarding the December 31, 2015 methodology we employed to determine our discount rate for 2016. Our assumed discount rate for 2016 was 4.50% for our domestic pension plans and 4.35% for our other domestic postretirement benefit plans. Given the amount of pension and postretirement obligations as of December 31, 2015, 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, 2016	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in discount rate by 100 bps	$ (114)	$ (6)
Decrease in discount rate by 100 bps	$ 135	$ 5

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Foreign pension plans represent 13% of plan obligations at the beginning of 2016. An increase in discount rate by 100 bps would result in a decrease in net periodic pension costs of $4 million; conversely, a decrease in discount rate by 100 bps would result in an increase in net periodic pension costs of $8 million.

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 always 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 2016, 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, 2017, we will decrease the discount rate to 4.15% from 4.50% in 2016. 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, 2016, 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, 2016	
	Increase/(Decrease) in Pension Benefits Obligation	Increase/(Decrease) in Accumulated Postretirement Benefits Obligation
	(in millions)	
Increase in discount rate by 100 bps	$ (1,380)	$ (178)
Decrease in discount rate by 100 bps	$ 1,599	$ 195

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 unremitted foreign earnings from certain operations in Japan, Korea, Brazil, Germany and Taiwan. Unremitted foreign earnings from operations in other foreign jurisdictions are considered to be permanently reinvested. See Note 19 to the Consolidated Financial Statements for a discussion of unremitted earnings for which the Company provides U.S. Income Taxes.

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 2016 of $57 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 2016, 2015 and 2014 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 are no new critical accounting estimates resulting from new accounting pronouncements adopted during 2016. 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 includes both variable and fixed annuities that may include optional guaranteed living benefits riders (e.g., guaranteed minimum income benefits ("GMIB"), guaranteed minimum accumulation benefits ("GMAB"), guaranteed minimum withdrawal benefits ("GMWB"), and guaranteed minimum income and withdrawal benefits ("GMIWB")), and/or guaranteed minimum death benefits ("GMDB"). We also offer 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 these contractholder funds is generally attributed directly to the contractholder. We also earn investment income on general account assets supporting 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 managing 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 contractual features. Under U.S. GAAP, the reserves for GMDB and GMIB are calculated based on best estimates applying our actuarial and capital markets return assumptions in accordance with an insurance fulfillment accounting framework whereby a liability is established over time representing the portion of fees collected that is expected to be used to satisfy the obligation to pay benefits in future periods. The risks associated with these benefit features are retained and results are included in adjusted operating income in a manner generally consistent with U.S. GAAP.

In contrast, certain of our guaranteed living benefit riders (e.g., GMAB, GMWB and GMIWB) are accounted for under U.S. GAAP as embedded derivatives and reported using a fair value accounting framework. These benefit features are carried at fair value based on estimates of assumptions a market participant would use in valuing these embedded derivatives and the change in fair value during each reporting period is recorded within "Realized investment gains (losses), net." For purposes of measuring segment performance, adjusted operating income excludes the changes in fair value and instead reflects the performance of these riders using an insurance fulfillment accounting framework. Under this framework, adjusted operating income recognized each period reflects the rider fees earned during the period less the portion of such fees estimated to be required to cover future benefit payments and hedging costs. For more information on how we determine the portion of fees needed to cover estimated future benefit payments and hedging costs, see “Variable Annuity Risks and Risk Mitigants” below.

Account Values

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

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	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Total Individual Annuities(1):			
Beginning total account value	$152,945	$158,664	$154,140
Sales	8,054	8,780	10,008
Surrenders and withdrawals	(7,881)	(8,415)	(8,852)
Net sales	173	365	1,156
Benefit payments	(1,794)	(1,910)	(1,799)
Net flows	(1,621)	(1,545)	(643)
Change in market value, interest credited and other activity	9,012	(585)	8,666
Policy charges	(3,553)	(3,589)	(3,499)
Ending total account value	$156,783	$152,945	$158,664

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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 $153.3 billion, $149.4 billion and $155.1 billion as of December 31, 2016, 2015 and 2014, respectively. Fixed annuity account values were $3.5 billion, $3.5 billion and $3.6 billion as of December 31, 2016, 2015 and 2014, respectively.

2016 to 2015 Annual Comparison. The increase in account values during 2016 was largely driven by favorable changes in the market value of contractholder funds, partially offset by contract charges on contractholder accounts and benefit payments. Net sales for 2016 decreased compared to 2015 reflecting lower gross sales partially offset by lower surrenders and withdrawals. The decline in gross sales for 2016 compared to 2015 was largely driven by decreased sales of our Prudential Premier® Retirement Variable Annuity with “highest daily” benefit riders and Prudential Premier® Investment Variable Annuity (“PPI”). The declines in gross sales were partially offset by increases in sales of our Prudential Defined Income Variable Annuity (“PDI”) product.

2015 to 2014 Annual Comparison. The decrease in account values during 2015 was largely driven by contract charges on contractholder accounts, benefit payments and unfavorable changes in the market value of contractholder funds. The decline in net sales for 2015 compared to 2014 was largely driven by a decrease in sales of our products with the highest daily benefit, partially offset by an increase in sales of our PPI and PDI products.

Operating Results

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

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Operating results:			
Revenues	$4,666	$4,695	$4,710
Benefits and expenses	2,901	2,898	3,243
Adjusted operating income	1,765	1,797	1,467
Realized investment gains (losses), net, and related adjustments	2,031	1,588	521
Related charges	68	(624)	(137)

Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$3,864	$2,761	$1,851

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Adjusted Operating Income

2016 to 2015 Annual Comparison. Adjusted operating income decreased $32 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income decreased $8 million. The decrease was primarily driven by lower asset-based fee income, net of associated costs, as well as higher general and administrative expenses including business growth initiatives. The decrease in asset-based fee income, net of a related decrease in asset-based commissions, was driven by a decline in average variable annuity account values and the decrease in the average effective fee rate as fee rates on recent sales are generally lower than fee rates on the inforce block. This decrease was partially offset by an increase due to greater efficiency in managing product risks associated with a recently implemented asset-liability management strategy discussed below. Partially offsetting this net decline were increases in net investment income driven by higher income on non-coupon investments and higher invested assets, as well as lower amortization costs and lower interest expense. This net decline was also partially offset by the absence of certain costs for contract cancellations incurred in 2015.

Adjustments to the amortization of DAC and other costs and to the reserves for certain living and/or death benefit features of our variable annuity products resulted in a net benefit of $138 million and $162 million in 2016 and 2015, respectively. The net benefits primarily reflected the net impact of equity market performance on contractholder accounts and hedge effectiveness (beginning in the third quarter of 2016 as a result of our new ALM strategy) relative to our assumptions, as well as a net benefit resulting from our annual reviews and update of assumptions and other refinements.

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.

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 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.

Revenues, Benefits and Expenses

2016 to 2015 Annual Comparison. Revenues decreased $29 million. Excluding the $5 million net decrease related to the impacts of certain changes in our estimated profitability of the business discussed above, revenues decreased $24 million, primarily driven by a decrease in policy charges and fee income, asset management and service fees and other income, primarily due to a decline in average variable annuity account values. Partially offsetting this decrease was an increase in net investment income driven by higher income on non-coupon investments and higher invested assets, and an increase in premiums reflecting an increase in annuitizations of our variable annuity contracts, with offsets in policyholders' benefits, as discussed below.

Benefits and expenses increased $3 million. Excluding the $19 million net increase related to the impacts of certain changes in our estimated profitability of the business discussed above, benefits and expenses decreased $16 million. Interest credited to policyholders' account balances and amortization of DAC decreased $21 million and $12 million, respectively, driven by lower fee income, as discussed above. General and administrative expenses, net of capitalization, decreased $10 million driven by lower asset management costs and lower asset-based commissions due to lower average account values, partially offset by higher operating expenses. Partially offsetting these decreases was a $25 million increase in policyholders' benefits, including changes in reserves, primarily reflecting an increase in annuitizations of our variable annuity contracts with offsets in premiums, as discussed above.

2015 to 2014 Annual Comparison. Revenues 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 decreased $345 million. Excluding 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.

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 these risk exposures, achievement of our expected returns is subject to the risk that actual experience will differ from the assumptions used in the original pricing of these products. We currently manage our exposure to certain risks driven by capital markets fluctuations primarily through a combination of three strategies described below including Product Design Features, External Reinsurance and our Asset Liability Management Strategy.

Product Design Features

Certain of the variable annuity contracts that we offer include an automatic rebalancing feature, also referred to as an asset transfer feature. This feature is implemented at the contract level, and transfers assets between certain variable investment sub-accounts selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond fund sub-account within the separate accounts. The 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 premiums, as well as a required minimum allocation to our general account for certain of our products. We have also introduced products that diversify our risk profile and have incorporated provisions in product design allowing frequent revisions of key pricing elements. In addition, there is diversity in our fee arrangements, as certain fees are primarily based on the benefit guarantee amount, the contractholder account value and/or premiums, which helps preserve certain revenue streams when market fluctuations cause account values to decline.

External Reinsurance

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 most current version of our "highest daily" living benefits guarantee that is available with our Prudential Premier® Retirement Variable Annuity. This reinsurance agreement covered most new HDI v.3.0 variable annuity business issued between April 1, 2015 and December 31, 2016 on a quota share basis, not to exceed Union Hamilton's quota share of $5.0 billion for new rider premiums through December 31, 2016. From April 1, 2015 through December 31, 2016, approximately $2.9 billion of new rider premiums were ceded to Union Hamilton under this agreement. Reinsurance on business subject to this agreement remains in force for the duration of the underlying annuity contracts. New sales of HDI v.3.0 subsequent to December 31, 2016 are not covered by this external reinsurance agreement.

Asset Liability Management ("ALM") Strategy (including fixed income instruments and derivatives)

Under our historical hedging program to manage certain capital market risks associated with certain variable annuity living benefit guarantees, we utilized the U.S. GAAP valuation, with certain modifications, to derive a hedge target that was more reflective of our best estimate of future benefit payments, net of fees collected. Derivative positions were entered into that sought to offset the change in value of the hedge target.

During the third quarter of 2016, we implemented a new ALM strategy that utilizes a combination of both traditional fixed income instruments and derivatives to help defray potential claims associated with our variable annuity living benefit guarantees. Under the revised strategy, expected living benefit claims under less severe market conditions are managed through the accumulation of fixed income instruments and potential living benefit claims resulting from more severe market conditions are hedged using derivative instruments. We expect the revised strategy to result in more efficient management of our capital and liquidity associated with these products while continuing to mitigate fluctuations in net income due to capital markets movements.

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The change in hedge strategy had no impact on how we value or account for the living benefit guarantees under U.S. GAAP. However, under the new ALM strategy, beginning in the third quarter of 2016, adjusted operating income includes the fees earned that are in excess of the estimated portion of fees required to cover expected claims and hedge costs for the economic liability. The portion of fees required to cover such costs is updated quarterly to reflect updated estimates and actual experience. The effectiveness of our hedging program as measured by comparing the change in value of our hedging assets to the change in value of the liability we are attempting to hedge will ultimately be reflected in adjusted operating income over time through the inclusion of actual hedge costs. Expected costs are updated periodically along with our expectation of claims. For adjusted operating income purposes, DAC and other costs are fully amortized over the life of the contracts proportional to our actual and estimated gross profits under the adjusted operating income framework described above. Overall, we generally expect this strategy to result in a higher portion of fees being recognized in adjusted operating income than under our prior strategy.

The following table provides a reconciliation between the liability reported under U.S. GAAP and the economic liability we intend to manage through our ALM strategy.

	As of December 31, 2016
	(in millions)
U.S. GAAP liability (including non-performance risk)	$ 8,179
Non-performance risk adjustment	7,136
Subtotal	15,315
Adjustments including risk margins and valuation methodology differences	(5,663)
Economic liability managed by ALM strategy	$ 9,652

As of December 31, 2016, we have sufficient fixed income instruments and derivative assets supporting the economic liability within the entities in which the risks reside.

Under the new ALM strategy, we expect differences in the U.S. GAAP net income impact between the changes in value of the fixed income instruments and derivatives as compared to the changes in the embedded derivative liability these assets support. These differences can be primarily attributed to three distinct areas:

- Different valuation methodologies in measuring the liability we intend to cover with fixed income instruments and derivatives versus the liability reported under U.S. GAAP—The valuation methodology utilized in estimating the economic liability we intend to defray with fixed income instruments and derivatives is different from that required to be utilized to measure the liability under U.S. GAAP. The valuation of the economic liability excludes certain items that are included within the U.S. GAAP liability, such as non-performance risk (“NPR”) (in order to maximize protection irrespective of the possibility of our own default), as well as risk margins (required by U.S. GAAP but different from our best estimate).

- Different accounting treatment between liabilities and assets supporting those liabilities—Under U.S. GAAP, changes in value of the embedded derivative liability and derivative instruments used to hedge a portion of the economic liability are immediately reflected in net income. In contrast, changes in fair value of fixed income instruments that support a portion of the economic liability are designated as available for sale and are not recorded in net income but rather are recorded as unrealized gains (losses) in other comprehensive income.

- General hedge results—For the derivative portion of the ALM strategy, the net hedging impact (the extent to which the changes in value of the hedging instruments offset the change in value of the portion of the economic liability we are hedging) may be impacted by a number of factors including: cash flow timing differences between our hedging instruments and the corresponding portion of the economic liability we are hedging, basis differences attributable to actual underlying contractholder funds to be hedged versus hedgeable indices, rebalancing costs related to dynamic rebalancing of hedging instruments as markets move, certain elements of the economic liability that may not be hedged (including certain actuarial assumptions), and implied and realized market volatility on the hedge positions relative to the portion of the economic liability we seek to hedge.

For the portion of our ALM strategy executed with derivatives, we enter into a range of exchange-traded, cleared and over-the-counter (“OTC”) equity and interest rate derivatives including, but not limited to: equity and treasury futures; total return and interest rate swaps; and options including equity options, swaptions, and floors and caps.

The following table illustrates the net impact to our Consolidated Statements of Operations from changes in the U.S. GAAP embedded derivative liability and hedge positions, and the related amortization of DAC and other costs, for the periods indicated.

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	Year ended December 31,		
	2016	2015	2014
	(1)		
	(in millions)		
Excluding impact of assumption updates and other refinements:			
Net hedging impact(2)(3)	$(692)	$(547)	$(421)
Change in portions of U.S. GAAP liability, before NPR(4)	1,745	(67)	(1,997)
Change in the NPR adjustment	(1,097)	2,243	3,824
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions-reported in Individual Annuities	(44)	1,629	1,406
Related benefit (charge) to amortization of DAC and other costs	$243	$(701)	$(496)
Net impact of assumption updates and other refinements	1,455	(34)	(631)
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(3)	$1,654	$894	$279

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

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

(3) Excludes $(1,523) million, $(585) million and $(3,036) million for 2016, 2015 and 2014, respectively, representing the impact of managing interest rate risk through capital management strategies other than hedging of particular exposures. Because this decision was based on the capital considerations of the Company as a whole, the impact was reported in Corporate and Other operations. See "—Corporate and Other."

(4) Represents risk margins and valuation methodology differences between the economic liability managed by the ALM strategy and the U.S. GAAP liability, as well as the portion of the economic liability managed with fixed income instruments.

The net gain of $1,654 million for 2016 primarily reflected the impact of a $1,455 million benefit from our annual review and update of assumptions, driven by modifications to both our actuarial assumptions, including updates to expected withdrawal rates, as well as economic assumptions. The net gain also reflected the changes in the portions of the U.S. GAAP liability before NPR that are excluded from our hedge target. This impact was partially offset by changes in the NPR adjustment, primarily driven by tightening of credit spreads. To a lesser extent, results also reflected net hedging impacts, primarily driven by unfavorable liability basis. Each of these items had corresponding partial offsets included in the related impacts to amortization of DAC and other costs. Amortization of DAC and other costs also included a benefit of $515 million related to changes in our estimate of total gross profits as a result of the implementation of the new ALM strategy in the third quarter of 2016 described 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 historically defined 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 historically defined hedge target, net of related impacts to the amortization of DAC and other costs.

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 historically defined 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 historically defined 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.

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

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Through March 31, 2016, we reinsured living benefit guarantees issued by our domestic statutory life insurance companies to a captive reinsurance company, Pruco Re, in order to facilitate the capital markets hedging program for these living benefit guarantees. Effective April 1, 2016, as part of the Variable Annuities Recapture, living benefit guarantees and certain retirement products were recaptured. The Variable Annuities Recapture resulted in the transfer of these product risks to certain of our domestic statutory life insurance companies. The ALM strategy described above is executed within these domestic insurance companies. After the foregoing transactions, Pruco Re no longer had any material active reinsurance with affiliates. On September 30, 2016, Pruco Re was merged with and into PALAC.

Product Specific Risks and Risk Mitigants

For certain living benefits guarantees, 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 guarantees 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 accounts.

The majority of our variable annuity contracts with living benefits guarantees, 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 ALM strategy. We may also utilize external reinsurance as a form of additional risk mitigation. The risks associated with the guaranteed benefits of certain legacy products that were sold prior to our development of the automatic rebalancing feature are also managed through our ALM strategy. Certain legacy GMAB products include the automatic rebalancing feature, but are not included in the ALM strategy. The PDI product and contracts with the GMIB feature have neither risk mitigant. 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 guarantee which includes an automatic rebalancing feature. All of the variable annuity account values with living benefit guarantees 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 management profile of our living benefit guarantees and GMDB features as of the periods indicated.

	December 31,					
	2016		2015		2014	
	Account Value	% of Total	Account Value	% of Total	Account Value	% of Total
	(in millions)					

Living benefit/GMDB features(1):						
Both ALM strategy and automatic rebalancing(2)	$106,585	69 %	$106,018	71 %	$110,953	72 %
ALM strategy only	9,409	6 %	9,994	7 %	11,395	7 %
Automatic rebalancing only	1,168	1 %	1,393	1 %	1,771	1 %
External reinsurance(3)	2,932	2 %	1,513	1 %	0	0 %
PDI	7,926	5 %	4,664	3 %	2,777	2 %
Other Products	2,730	2 %	2,870	2 %	3,324	2 %
Total living benefit/GMDB features	$130,750		$126,452		$130,220	
GMDB features and other(4)	22,545	15 %	22,989	15 %	24,863	16 %
Total variable annuity account value	$153,295		$149,441		$155,083	

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

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(2) Contracts with living benefits that are included in our ALM strategy, and have an automatic rebalancing feature.
(3) Represents contracts subject to reinsurance transaction with external counterparty covering new business for the period April 1, 2015 through December 31, 2016. These contracts with living benefits also have an automatic rebalancing feature.
(4) Includes contracts that have a GMDB feature and do not have an automatic rebalancing feature.

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.

Retirement

Operating Results

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

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Operating results(1):			
Revenues	$12,876	$11,821	$12,077
Benefits and expenses	11,864	10,890	10,862
Adjusted operating income	1,012	931	1,215
Realized investment gains (losses), net, and related adjustments	(281)	255	591
Related charges	(272)	(1)	(4)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(21)	(581)	151
Change in experience-rated contractholder liabilities due to asset value changes	25	490	(106)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$463	$1,094	$1,847

(1) Certain of our Retirement segment's non-U.S. dollar-denominated earnings are from longevity reinsurance contracts, which are denominated in British pounds sterling, and are therefore subject to foreign currency exchange rate risk. Effective January 1, 2016, the financial results of our Retirement segment include the impact of an intercompany arrangement with our Corporate and Other operations designed to mitigate the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. For more information related to this intercompany arrangement, see "—Results of Operations—Impact of Foreign Currency Exchange Rates," above.

Adjusted Operating Income

2016 to 2015 Annual Comparison. Adjusted operating income increased $81 million. Results for 2016 reflected a net benefit of $6 million from our annual review and update of assumptions and other refinements, driven by favorable updates to actuarial assumptions, while results for 2015 reflected no net impact from our annual review and update of assumptions. Excluding this favorable comparative impact, adjusted operating income increased $74 million, primarily driven by higher net investment spread results, partially offset by a lower contribution from reserve experience, higher general and administrative expenses, net of capitalization, and lower fee income. The increase in net investment spread results primarily reflected higher net prepayment fee income, growth in account values and higher income on non-coupon investments, partially offset by lower reinvestment rates net of crediting rate reductions on full service general account stable value products. The lower contribution from reserve experience primarily reflected lower mortality gains on a comparative basis for pension risk transfer contracts. The increase in general and administrative expenses, net of capitalization, was primarily driven by increased legal costs. The decrease in fee income primarily reflected lower margins on full service account values. This decrease was partially offset by growth in account values and increased billed revenues.

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2015 to 2014 Annual Comparison. Adjusted operating income decreased $284 million. Results for 2015 reflected no net impact from our annual review and update of assumptions, while results for 2014 reflected a $13 million net charge. Excluding this favorable comparative impact, adjusted operating income decreased $297 million, primarily driven by lower net investment spread results, higher general and administrative expenses, net of capitalization, and lower fee income, partially offset by a higher contribution from reserve experience. 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 lower net prepayment fee income, partially offset by growth in account values. The increase in general and administrative expenses, net of capitalization, was primarily 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, partially offset by higher income from longevity reinsurance account values. The more favorable reserve impacts reflected higher mortality gains for pension risk transfer contracts.

Revenues, Benefits and Expenses

2016 to 2015 Annual Comparison. Revenues increased $1,055 million. Premiums increased $851 million primarily driven by pension risk transfer transactions. This increase in premiums resulted in a corresponding increase in policyholders' benefits, as discussed in benefits and expenses below. Net investment income increased $181 million, primarily reflecting growth in account values as discussed below, higher prepayment fee income and higher income on non-coupon investments, partially offset by lower reinvestment rates.

Benefits and expenses increased $974 million. Excluding the impact of our annual review and update of assumptions, as discussed above, benefits and expenses increased $981 million. Policyholders' benefits, including the change in policy reserves, increased $968 million, primarily related to the increase in premiums discussed above. Interest credited to policyholders' account balances increased $32 million, primarily driven by higher prepayment fee income credited to experience rated account balances and growth in account values as discussed below, partially offset by the impact of crediting rate reductions on full service general account stable value account values.

2015 to 2014 Annual Comparison. Revenues 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 prepayment fee income, partially offset by growth in account values. 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 increased $28 million. Excluding the impact of our annual review and update of assumptions, 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.

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."

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	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Full Service:			
Beginning total account value	$188,961	$184,196	$173,502
Deposits and sales	21,928	25,684	23,934
Withdrawals and benefits	(20,127)	(21,559)	(22,601)
Change in market value, interest credited and interest income and other activity	12,040	640	9,361
Ending total account value	$202,802	$188,961	$184,196
Net additions (withdrawals)	$1,801	$4,125	$1,333
Institutional Investment Products:			
Beginning total account value	$179,964	$179,641	$149,402
Additions(1)	16,140	15,572	43,293
Withdrawals and benefits	(12,161)	(15,388)	(16,036)
Change in market value, interest credited and interest income	5,299	3,476	5,833
Other(2)	(5,866)	(3,337)	(2,851)
Ending total account value	$183,376	$179,964	$179,641
Net additions (withdrawals)	$3,979	$184	$27,257

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

(2) "Other" activity includes the effect of foreign exchange rate changes associated with our United Kingdom longevity reinsurance business, net presentation of $2,914 million in receipts offset by $2,364 million in payments related to funding agreements backed by commercial paper which typically have maturities of less than 90 days, and changes in asset balances for externally-managed accounts.

2016 to 2015 Annual Comparison. The increase in full service account values primarily reflected the favorable changes in the market value of customer funds. The decrease in net additions was primarily driven by lower large plan sales. This decrease was partially offset by lower plan lapses, as well as net participant deposits in 2016 compared to net participant withdrawals in 2015.

The increase in institutional investment products account values primarily reflected net additions resulting from investment-only stable value accounts and pension risk transfer transactions. The increase in net additions was primarily driven by investment-only stable value accounts, which reflected net additions in 2016 compared to net withdrawals in 2015. This increase was partially offset by less net additions related to pension risk transfer transactions in 2016 as compared to 2015 and a bank-owned life insurance stable value transaction in 2015.

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 and a bank-owned life insurance stable value transaction, 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.

Asset Management

Operating Results

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

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	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Operating results(1):			
Revenues	$2,961	$2,944	$2,840
Expenses	2,174	2,165	2,055
Adjusted operating income	787	779	785
Realized investment gains (losses), net, and related adjustments	(6)	(4)	(10)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	45	50	41
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$826	$825	$816

(1) Certain of our Asset Management segment's investment activities are based in currencies other than the U.S. dollar and are therefore subject to foreign currency exchange rate risk. Effective January 1, 2016, the financial results of our Asset Management segment include the impact of an intercompany arrangement with our Corporate and Other operations designed to mitigate the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. For more information related to this intercompany arrangement, see "—Results of Operations—Impact of Foreign Currency Exchange Rates," above.

Adjusted Operating Income

2016 to 2015 Annual Comparison. Adjusted operating income increased $8 million. The increase primarily reflected higher asset management fees, net of expenses, from an increase in average fixed income assets under management as a result of net inflows and market appreciation as well as from a favorable fee rate modification within certain real estate funds, partially offset by a decline in average equity assets under management as a result of net outflows and market volatility experienced in the first half of the year. The increase was also partially offset by lower other related revenues, net of associated expenses, primarily related to lower strategic investing results and lower equity fund-related incentive fees, net of expenses.

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.

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.

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Revenues by type:			
Asset management fees by source:			
Institutional customers	$ 1,046	$ 923	$ 877
Retail customers(1)	707	764	720

General account	474	448	424
Total asset management fees	2,227	2,135	2,021
Incentive fees	108	88	91
Transaction fees	19	20	26
Strategic investing	25	30	45
Commercial mortgage(2)	103	103	100
Other related revenues(3)	255	241	262
Service, distribution and other revenues(4)	479	568	557
Total revenues	$ 2,961	$ 2,944	$ 2,840

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

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

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

(4) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004, implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was $84 million in 2016, $78 million in 2015 and $77 million in 2014.

2016 to 2015 Annual Comparison. Revenues increased $17 million. Total asset management fees increased $92 million, primarily as a result of net inflows and market appreciation within fixed income as well as from a favorable fee rate modification within certain real estate funds that occurred in the third quarter of 2016. Other related revenues increased $14 million, primarily due to higher performance-based incentive fees related to certain fixed income hedge funds. Partially offsetting these increases was an $89 million decrease in service, distribution and other revenues reflecting lower service and other fees as well as the deconsolidation of certain collateralized loan obligations.

Expenses increased $9 million, as a result of business growth, higher compensation related to favorable fixed income results and higher performance-based incentive fees (included in noncontrolling interest), partially offset by the deconsolidation of certain funds, as discussed above.

2015 to 2014 Annual Comparison. Revenues 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 increased $110 million, including those related to business growth initiatives, commissions from higher retail sales and higher expenses related to revenues associated with certain consolidated funds, as discussed above.

Assets Under Management

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

	December 31,		
	2016	2015	2014
	(in billions)		
Assets Under Management (at fair market value):			
Institutional customers:			
Equity	$59.3	$59.9	$63.8
Fixed income	332.2	289.9	270.0
Real estate	40.0	39.3	36.2
Institutional customers(1)	431.5	389.1	370.0
Retail customers:			
Equity	112.4	121.4	122.8
Fixed income	94.5	73.7	61.0
Real estate	2.3	2.2	2.3

Retail customers(2)	209.2	197.3	186.1
General account:			
Equity	6.4	7.4	7.7
Fixed income	391.3	367.5	368.1
Real estate	1.7	1.8	1.6
General account	399.4	376.7	377.4
Total assets under management	$1,040.1	$963.1	$933.5

(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,		
	2016	2015	2014
	(in billions)		
Institutional Customers:			
Beginning Assets Under Management	$389.1	$370.0	$341.7
Net additions (withdrawals), excluding money market activity:			
Third-party	5.3	21.2	0.7
Affiliated	0.8	(4.8)	1.8
Total	6.1	16.4	2.5
Market appreciation (depreciation)	24.2	2.6	26.9
Other increases (decreases)(1)	12.1	0.1	(1.1)
Ending Assets Under Management	$431.5	$389.1	$370.0
Retail Customers:			
Beginning Assets Under Management	$197.3	$186.1	$170.7
Net additions (withdrawals), excluding money market activity:			
Third-party	0.4	0.8	4.7
Affiliated	(0.5)	9.2	(0.5)
Total	(0.1)	10.0	4.2
Market appreciation (depreciation)	9.1	1.4	11.6
Other increases (decreases)(1)	2.9	(0.2)	(0.4)
Ending Assets Under Management	$209.2	$197.3	$186.1
General Account:			
Beginning Assets Under Management	$376.7	$377.4	$357.5
Net additions (withdrawals), excluding money market activity:			
Third-party	0.0	0.0	0.0
Affiliated(2)	8.9	(1.1)	3.9
Total	8.9	(1.1)	3.9
Market appreciation (depreciation)	13.3	(1.5)	25.8
Other increases (decreases)(1)	0.5	1.9	(9.8)
Ending Assets Under Management	$399.4	$376.7	$377.4

(1) Includes the effect of foreign exchange rate changes, net money market activity, impact of acquired business 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 gains of $2.7 billion, losses of $1.7 billion and losses of $13.9 billion for the years ended December 31, 2016, 2015 and 2014, 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.

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.

	December 31,	
	2016	2015
	(in millions)	

Co-Investments:		
Real estate	$165	$197
Fixed income	218	166
Seed Investments:		
Real estate	46	56
Public equity	441	300
Fixed income	279	214
Investments Secured by Investor Equity Commitments	0	42
Total	$1,149	$975

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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,		
	2016	2015	2014
	(in millions)		
Operating results:			
Revenues	$5,355	$5,233	$5,226
Benefits and expenses	5,276	4,598	4,728
Adjusted operating income	79	635	498
Realized investment gains (losses), net, and related adjustments	58	166	1,092
Related charges	(223)	(9)	(341)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$(86)	$792	$1,249

Adjusted Operating Income

2016 to 2015 Annual Comparison. Adjusted operating income decreased $556 million, primarily reflecting unfavorable comparative net impacts from our annual reviews and update of assumptions and other refinements. Results for 2016 included a $420 million net charge from these impacts, mainly driven by a charge to accrue a liability to offset the present value of losses expected to be recognized in later years ("Profits Followed by Losses" liability, see "—Accounting Policies & Pronouncements—Policyholder Liabilities") and a charge related to an out of period adjustment (see Note 1 to the Consolidated Financial Statements). Partially offsetting these charges was a net benefit from the impacts of other refinements. Results for 2015 included a $68 million net benefit from our annual review and update of assumptions and other refinements, mainly driven by net favorable modifications to our economic and actuarial assumptions. Excluding these impacts, adjusted operating income decreased $68 million, primarily driven by less favorable mortality experience, net of reinsurance, and higher general and administrative expenses driven by business growth initiatives, partially offset by a higher contribution from investment results.

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, 2015 included $17 million of costs associated with the integration of the Hartford Life Business, while the year 2014 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, 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.

Revenues, Benefits and Expenses

2016 to 2015 Annual Comparison. Revenues increased $122 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased $199 million. Net investment income increased $153 million primarily reflecting higher invested assets resulting from continued business growth and higher required capital, higher prepayment fee income and higher income on non-coupon investments. Policy charges and fee income, asset management and service fees and other income increased $82 million, primarily driven by growth in universal life business, partially offset by a decrease in the amortization of unearned revenue reserves, driven by the impact of changes in the estimated profitability of the business due to experience relative to our assumptions. Partially offsetting these increases was a $36 million decrease in premiums, primarily driven by higher ceded reinsurance premiums which were mostly offset by reserve changes in Policyholders' benefits.

Benefits and expenses increased $678 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased $267 million. Policyholders' benefits and interest credited to account balances increased $195 million primarily reflecting universal life business growth and less favorable mortality experience, partially offset by reserve changes for ceded reinsurance premiums discussed above. General and administrative expenses, net of capitalization, increased $40 million primarily driven by business growth and initiatives. Interest expense increased $33 million related to higher reserve financing costs.

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2015 to 2014 Annual Comparison. Revenues 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 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, 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 included lower amortization of VOBA primarily due to less favorable mortality experience and the impact of cost savings associated with the Hartford Life Business integration.

Sales Results

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

	2016			2015			2014		
	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total	Prudential Advisors	Third Party	Total
	(in millions)								
Term Life	$32	$168	$200	$33	$171	$204	$36	$145	$181
Guaranteed Universal Life(1)	24	219	243	31	189	220	28	121	149
Other Universal Life(1)	34	61	95	28	61	89	13	57	70
Variable Life	26	66	92	22	56	78	21	31	52
Total	$116	$514	$630	$114	$477	$591	$98	$354	$452

(1) Single pay life premiums and excess (unscheduled) premiums are included in annualized new business premiums based on a 10% credit and represented approximately 13%, 17% and 10% of Guaranteed Universal Life and 3%, 7% and 8% of Other Universal Life annualized new business premiums for the years ended December 31, 2016, 2015 and 2014, respectively.

2016 to 2015 Annual Comparison. Annualized new business premiums increased $39 million, primarily driven by the continued impact of product enhancements in both universal and variable life as well as continued improvements in distribution execution.

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.

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,		
	2016	2015	2014
	(in millions)		
Operating results:			
Revenues	$5,343	$5,143	$5,357
Benefits and expenses	5,123	4,967	5,334
Adjusted operating income	220	176	23
Realized investment gains (losses), net, and related adjustments	(8)	(1)	66
Related charges	(6)	(4)	(5)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$206	$171	$84
Benefits ratio(1):			
Group life(2)	89.1 %	88.7 %	89.3 %
Group disability(2)	75.7 %	75.7 %	99.8 %
Total group insurance(2)	86.7 %	86.6 %	91.1 %
Administrative operating expense ratio(3):			
Group life	10.6 %	11.0 %	11.1 %
Group disability	31.4 %	34.1 %	30.2 %

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(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 88.5%, 82.9% and 87.5% for 2016, respectively, 89.2%, 79.2% and 87.5% for 2015, respectively, and 89.2%, 87.0% and 88.8% for 2014, respectively.

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

Adjusted Operating Income

2016 to 2015 Annual Comparison. Adjusted operating income increased $44 million, primarily reflecting favorable comparative net impacts from our annual reviews and updates of assumptions and other refinements. Results for 2016 included a $41 million net benefit from these updates, while results for 2015 included a $28 million net benefit. The net benefit in 2016 was primarily driven by favorable experience related to our group disability business. Excluding the effect of these items, adjusted operating income increased $30 million primarily reflecting more favorable underwriting results in our group life business, a higher contribution from net investment spread results, and lower net expenses, partially offset by less favorable underwriting results in our group disability business. The underwriting results in our group life business reflect a favorable impact from a reserve refinement and more favorable experience, while the underwriting results in our group disability business reflect the impact of lower claim resolutions on long-term contracts and higher benefits resulting from other claims-related charges, partially offset by the impact of fewer new claims and increased new business.

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.

Revenues, Benefits and Expenses

2016 to 2015 Annual Comparison. Revenues increased $200 million. Excluding a favorable comparative impact of $42 million resulting from our annual reviews and updates of assumptions and other refinements, as discussed above, revenues increased $158 million. The increase reflected $140 million of higher premiums and policy charges and fee income primarily driven by the increase in new business in both our group life and group disability businesses, as well as higher premiums on existing experience-rated contracts in our group life business. Net investment income increased $21 million driven by higher prepayment income and income from non-coupon investments.

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Benefits and expenses increased $156 million. Excluding an unfavorable comparative impact of $29 million resulting from our annual review and update of assumptions and other refinements, as discussed above, benefits and expenses increased $127 million. Policyholders' benefits, including the change in reserves, increased $120 million, driven by the impact of new business for both our group life and group disability businesses, the impact of lower claim resolutions on long-term contracts in our group disability business, and higher benefits on existing experience-rated contracts in our group life business, partially offset by a decrease in general and administrative expenses.

2015 to 2014 Annual Comparison. Revenues 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 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.

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,		
	2016	2015	2014
	(in millions)		
Annualized new business premiums(1):			
Group life	$ 316	$ 204	$ 189
Group disability	119	69	67
Total	$ 435	$ 273	$ 256

(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.

2016 to 2015 Annual Comparison. Total annualized new business premiums increased $162 million as we continued to grow through sales to new and existing clients in both our group life and group disability businesses while maintaining pricing and underwriting discipline.

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.

International Insurance Division

International Insurance

Operating Results

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The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed in "—Impact of Foreign Currency Exchange Rates" above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations, excluding the effect of foreign currency fluctuations, were derived by translating foreign currencies to 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 in "—Impact of Foreign Currency Exchange Rates" 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,		
	2016	2015	2014
	(in millions)		
Operating results:			
Revenues:			
Life Planner operations	$9,986	$9,172	$9,267
Gibraltar Life and Other operations	11,023	10,192	10,799
Total revenues	21,009	19,364	20,066
Benefits and expenses:			
Life Planner operations	8,447	7,587	7,678
Gibraltar Life and Other operations	9,445	8,551	9,136
Total benefits and expenses	17,892	16,138	16,814
Adjusted operating income:			
Life Planner operations	1,539	1,585	1,589
Gibraltar Life and Other operations	1,578	1,641	1,663
Total adjusted operating income	3,117	3,226	3,252
Realized investment gains (losses), net, and related adjustments(1)	992	1,215	(2,192)
Related charges	(32)	(60)	(59)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	4	57	188
Change in experience-rated contractholder liabilities due to asset value changes	(4)	(57)	(188)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(47)	8	5
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$4,030	$4,389	$1,006

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

Adjusted Operating Income

2016 to 2015 Annual Comparison. Adjusted operating income from our Life Planner operations decreased $46 million including a net unfavorable impact of $97 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 $38 million net charge in 2016, including unfavorable economic assumption updates driven by lower interest rates in Japan and Korea, compared to an $11 million net charge in 2015.

Excluding the effect of these items, adjusted operating income increased $78 million, primarily reflecting the growth of business in force and continued strong persistency in Japan, and a larger contribution from non-coupon investments. These favorable impacts were partially offset by higher expenses, including those supporting business growth, and less favorable comparative mortality experience.

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Adjusted operating income from our Gibraltar Life and Other operations decreased $63 million including a net unfavorable impact of $120 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 $34 million net charge in 2016, including unfavorable economic assumption updates driven by lower interest rates in Japan, compared to a $10 million net charge in 2015.

Excluding the effect of these items, adjusted operating income increased $81 million as the growth of business in force, including the contribution from the Company's investment in AFP Habitat in Chile in March of 2016, more favorable comparative mortality experience and lower net expenses, including a gain on the sale of a home office property in Japan, were partially offset by a lower contribution from net investment spreads, primarily from lower income on non-coupon investments.

2015 to 2014 Annual Comparison. Adjusted operating income from our 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.

Revenues, Benefits and Expenses

2016 to 2015 Annual Comparison. Revenues from our Life Planner operations increased $814 million including a net favorable impact of $273 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $541 million. This increase was primarily driven by higher premiums and policy charges and fee income of $380 million related to growth of business in force. Net investment income increased $157 million primarily reflecting investment portfolio growth related to the growth of business in force, partially offset by the impact of lower reinvestment rates.

Benefits and expenses from our Life Planner operations increased $860 million including a net unfavorable impact of $370 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $490 million. Policyholder benefits, including changes in reserves, increased $377 million primarily driven by business growth. General and administrative expenses, net of capitalization, increased $81 million primarily due to higher costs, including those supporting business growth.

Revenues from our Gibraltar Life and Other operations increased $831 million, including a net favorable impact of $386 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $445 million, driven by a $211 million increase in premiums and policy charges and fee income due to business growth, a $116 million increase in net investment income primarily reflecting investment portfolio growth related to the growth of business in force, partially offset by lower investment spread income, and the gain on the sale of a home office property in Japan.

Benefits and expenses from our Gibraltar Life and Other operations increased $894 million including a net unfavorable impact of $506 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $388 million, primarily reflecting a $346 million increase in policyholder benefits, including changes in reserves, related to business growth and $21 million in general and administrative expenses, net of capitalization, due to higher costs, including those supporting business growth.

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2015 to 2014 Annual Comparison. Revenues from our Life Planner operations 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.

Benefits and expenses from our Life Planner operations 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 $929 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $322 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 from our Gibraltar Life and Other operations decreased $585 million including a net favorable impact of $852 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $267 million, primarily reflecting a $272 million increase in policyholder benefits, including changes in reserves, driven by business growth.

Sales Results

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

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Annualized new business premiums:			
On an actual exchange rate basis:			
Life Planner operations	$1,059	$1,117	$1,161
Gibraltar Life	1,726	1,548	1,584
Total	$2,785	$2,665	$2,745
On a constant exchange rate basis:			
Life Planner operations	$1,298	$1,181	$1,096
Gibraltar Life	1,728	1,619	1,506
Total	$3,026	$2,800	$2,602

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

The current low interest rate environment in Japan, as discussed further in "—Executive Summary—Impact of a Low Interest Rate Environment" above, and fluctuating currency markets have contributed to a shift in demand for certain products. Our diverse product portfolio in Japan, in terms of currency mix and premium payment mode, allows us to mitigate the negative impact from this extremely low interest rate environment. We regularly examine our yen-based product offerings and their related profitability and, as a result, we have been repricing our products and have discontinued sales of certain products that do not meet our profit expectations. The impact of these actions, coupled with the strengthening of the yen against the U.S. dollar and introduction of certain new products, has resulted in an increase in sales of products denominated in U.S. dollars relative to products denominated in other currencies.

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2016 to 2015 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, 2016					Year Ended December 31, 2015				
	Life	Accident & Health	Retirement (1)	Annuity	Total	Life	Accident & Health	Retirement (1)	Annuity	Total
	(in millions)									
Life Planner	$765	$ 118	$ 337	$ 78	$1,298	$729	$ 116	$ 271	$ 65	$1,181
Gibraltar Life:										
Life Consultants	366	56	117	208	747	347	61	126	134	668
Banks(2)	521	0	68	130	719	480	1	40	180	701
Independent Agency	134	23	71	34	262	104	24	69	53	250
Subtotal	1,021	79	256	372	1,728	931	86	235	367	1,619
Total	$1,786	$ 197	$ 593	$ 450	$3,026	$1,660	$ 202	$ 506	$ 432	$2,800

(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 9% and 53%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2016, and 5% and 51%, respectively, of total Japanese bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2015.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $117 million. Growth in Life Planner headcount and productivity in our Japan operation, coupled with the factors described above, resulted in an increase in sales of U.S. dollar-denominated retirement and whole life products while sales of yen-denominated term life products remained strong in the corporate market. Lower sales of life protection products in our Korean operation reflecting pricing actions were partially offset by higher sales in our Brazilian operation across various product lines as Life Planner count and average premiums continued to grow.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations increased $109 million. Life Consultant sales increased $79 million as higher sales of U.S. dollar-denominated annuity and whole life products were partially offset by lower sales of yen-denominated life protection products and Australian dollar-denominated annuity and retirement income products. Bank channel sales increased $18 million primarily driven by higher sales of U.S. dollar-denominated whole life, retirement income and annuity products, partially offset by lower sales of yen-denominated whole life and annuity products and Australian dollar-denominated annuity products. Independent Agency sales increased $12 million as higher sales of U.S. dollar-denominated whole life and retirement income products were partially offset by lower sales of Australian dollar-denominated annuity products and yen-denominated retirement and annuity products.

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.

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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.

Sales Force

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

	As of December 31,		
	2016	2015	2014
Life Planners:			
Japan	3,824	3,528	3,328
All other countries	3,856	4,064	4,024
Gibraltar Life Consultants	8,884	8,805	8,707
Total	16,564	16,397	16,059

2016 to 2015 Comparison. The number of Life Planners increased by 88, driven by an increase of 296 in Japan as a result of improved recruiting efforts and fewer terminations. Life Planners decreased by 208 in other operations, primarily in Korea, Poland and Italy, as a result of more selective recruiting efforts and restructurings, partially offset by an increase in Brazil as a result of recruiting efforts.

The number of Gibraltar Life Consultants increased by 79, primarily reflecting fewer terminations.

2015 to 2014 Comparison. The number of Life Planners increased by 240, driven by an increase of 200 in Japan 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, partially offset by an increase in Brazil as a result of recruiting efforts.

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

Corporate and Other

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

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	Year ended December 31,		
	2016	2015	2014
	(in millions)		
Operating results:			
Capital debt interest expense	$(686)	$(731)	$(626)
Operating debt interest expense, net of investment income	1	69	(126)
Pension and employee benefits	103	173	185
Other corporate activities(1)	(999)	(824)	(781)
Adjusted operating income	(1,581)	(1,313)	(1,348)
Realized investment gains (losses), net, and related adjustments	(1,797)	(961)	(3,656)
Related charges	(1)	19	4
Divested businesses	(84)	(66)	167
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(3)	0	(2)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$(3,466)	$(2,321)	$(4,835)

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(1) Includes consolidating adjustments.

2016 to 2015 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $268 million. Net charges from other corporate activities increased $175 million, primarily reflecting higher costs for employee compensation plans tied to Company stock and equity market returns, increased costs for enhanced regulatory supervision, costs associated with the early extinguishment of certain debt, higher legal costs, the absence of a favorable impact from escheatment related matters in the prior year and increased costs related to other corporate initiatives. The increased charges were partially offset by the absence of certain remediation costs incurred in the prior year, as described below. Results for operating debt interest expense, net of investment income, decreased $68 million, primarily reflecting lower levels of invested assets resulting from assets transferred to other business segments and lower net investment income from non-coupon investments. This decrease was partially offset by lower operating debt interest expense resulting from efforts to reduce leverage through senior debt maturities in late 2015 and early 2016, and the early extinguishment of certain debt in the second quarter of 2016. Capital debt interest expense decreased $45 million, primarily reflecting the reassignment of capital debt to operating debt and efforts to reduce leverage.

Results from pension and employee benefits decreased $70 million, primarily reflecting lower income from our qualified pension plan, 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 a higher discount rate.

For purposes of calculating pension income from our qualified pension plan for the year ended December 31, 2017, we will decrease the discount rate from 4.50% to 4.15% as of December 31, 2016. 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 2017 to be approximately $35 million to $45 million higher than 2016 levels. The increase is driven by higher expected returns on plan assets due to higher than expected plan fixed income asset growth in 2016 as well as lower interest costs on the plan obligation due to the lower discount rate.

For purposes of calculating postretirement benefit expenses for the year ended December 31, 2017, we will decrease the discount rate from 4.35% to 4.05% as of December 31, 2016. 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 2017 to be approximately $5 million to $15 million lower than 2016 levels. The decrease in expenses is driven by favorable census updates at December 31, 2016, partially offset by lower expected returns on plan assets due to lower than expected asset growth in 2016.

In 2017, 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.

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2015 to 2014 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased $35 million. Results for operating debt interest expense, net of investment income, increased $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. 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 consisted 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.

Capital Protection Framework

"Realized investment gains (losses), net and related adjustments," which are excluded from adjusted operating income, included net losses of $1,649 million, $673 million and $3,694 million for the years ended December 31, 2016, 2015 and 2014, 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. In implementing our capital management strategies, Corporate and Other may enter into intercompany derivatives with certain business segments. During 2016, primarily as a result of the change in our Individual Annuities' risk management strategy, we terminated a significant portion of the existing intercompany derivative transactions related to interest rate risk and expect to manage most of this risk within the business segments in the future. For more information on our Individual Annuities risk management strategy, see "—Executive Summary—Variable Annuities Recapture and Risk Management Strategy" and "—Individual Annuities." For more information on our Capital Protection Framework, see "—Liquidity and Capital Resources—Capital Protection Framework."

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,		
	2016	2015	2014

	(in millions)		
Long-Term Care	$ (74)	$ (67)	$ 171
Other	(10)	1	(4)
Total divested businesses income (loss) excluded from adjusted operating income	$ (84)	$ (66)	$ 167

Long-Term Care. Results for the year ended December 31, 2016 decreased compared to 2015 primarily reflecting an increase in net realized investment losses, driven by the change in market value of derivatives used in duration management. This decrease was partially offset by favorable policy experience and higher net investment income. Results for the year ended December 31, 2015 decreased compared to 2014 primarily reflecting a net realized investment loss in 2015 compared to a net realized investment gain in 2014, primarily driven by the change in market value of the derivatives used in duration management. This decrease also reflected unfavorable policy experience and an unfavorable comparative impact from our annual review and update of assumptions and other refinements.

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Closed Block Division

The Closed Block division includes certain in force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies (collectively the “Closed Block”), as well as certain related assets and liabilities. We no longer offer these traditional domestic participating policies. See Note 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, 2016, the excess of actual cumulative earnings over the expected cumulative earnings was $1,647 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 $3,011 million at December 31, 2016, 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.

	Year ended December 31,		
	2016	2015	2014
	(in millions)		
U.S. GAAP results:			
Revenues	$5,669	$6,160	$6,906
Benefits and expenses	5,801	6,102	7,165
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$(132)	$58	$(259)

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

2016 to 2015 Annual Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $190 million. Results for 2016 primarily reflected a $399 million decrease in net realized investment gains, primarily due to lower gains on equity securities, lower gains from sales of fixed maturities and less favorable changes in the value of derivatives used in risk management activities. Net investment income decreased $75 million, primarily due to lower returns on non-coupon investments and lower reinvestment rates, partially offset by higher prepayment fee income. Net insurance activity results increased $35 million, primarily due to lower benefit payments. As a result of the above and other variances, a $48 million reduction in the policyholder dividend obligation was recorded in 2016, compared to a $137 million increase in 2015. For a discussion of Closed Block division realized investment gains (losses), net, see "—Realized Investment Gains and Losses."

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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.

Revenues, Benefits and Expenses

2016 to 2015 Annual Comparison. Revenues decreased $491 million, primarily due to a $399 million decrease in net realized investment gains and a $75 million decrease in net investment income, as discussed above.

Benefits and expenses decreased $301 million, primarily due to a $189 million decrease in dividends to policyholders, reflecting a decrease in the policyholder dividend obligation expense due to changes in cumulative earnings. In addition, policyholders' benefits, including changes in reserves, decreased $83 million, primarily due to the runoff of policies in force.

2015 to 2014 Annual Comparison. Revenues 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 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.

Income Taxes

Shown below is our income tax provision for the years ended December 31, 2016, 2015 and 2014, separately reflecting the impact of certain significant items.

	Year ended December 31,		
	2016	2015	2014
	(in millions)		

Tax provision (benefit)	$ 1,335	$ 2,072	$ 349
Impact of:			
Non-taxable investment income	352	341	381
Foreign taxes at other than U.S. rate	172	51	(146)
Low income housing and other tax credits	118	116	127
Reversal of acquisition opening balance sheet deferred tax items	0	0	(53)
Change in repatriation assertion	0	3	(32)
Change in law: active financing exception	0	108	0
Other	20	28	(10)
Tax provision (benefit) excluding these items	$ 1,997	$ 2,719	$ 616

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2016 to 2015 Annual Comparison. Our income tax provision, on a consolidated basis, amounted to an income tax expense of $1,335 million in 2016 compared to an expense of $2,072 million in 2015. The decreased expense was primarily due to a decrease in “Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures” in 2016 compared to 2015. On March 31, 2016, the government of Japan enacted an approximately two percentage points reduction in the Japanese tax rate, effective April 1, 2016. On March 31, 2015, the government of Japan enacted an approximately two percentage points reduction in the Japanese tax rate, effective April 1, 2015. As a result, the impact of lower “Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures” in 2016 compared to 2015 was partially offset by $24 million and $75 million of additional tax expense related to re-measurement of Japan deferred tax assets at the new rates during 2016 and 2015, respectively.

Our income tax provision related to foreign operations, on a consolidated basis, amounted to an income tax expense of $1,158 million in 2016 compared to an income tax expense of $742 million in 2015. 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 2015 and 2016.

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. 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.

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 Consolidated 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 Consolidated Statements 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 Consolidated Statements of Financial Position as "Commercial mortgage and other loans." Gains (losses) on sales and changes in the valuation allowance for commercial mortgage and other loans are reported in "Realized investment gains (losses), net."

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

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

Adjusted operating income excludes net investment gains (losses) on 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,		
	2016	2015	2014
	(in millions)		
Retirement Segment:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$(21)	$(581)	$151
Derivatives	(10)	138	(32)
Commercial mortgages and other loans	5	4	12
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	25	490	(106)
Net gains (losses)	$(1)	$51	$25
International Insurance Segment:			
Investment gains (losses) on trading account assets supporting insurance liabilities, net	$4	$57	$188
Change in experience-rated contractholder liabilities due to asset value changes	(4)	(57)	(188)
Net gains (losses)	$0	$0	$0
Total:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$(17)	$(524)	$339
Derivatives	(10)	138	(32)
Commercial mortgages and other loans	5	4	12

Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	21	433	(294)
Net gains (losses)	$(1)	$51	$25

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(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 $10 million, $15 million and $2 million as of December 31, 2016, 2015 and 2014, respectively. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

(2) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are an increase of $4 million, a decrease of $64 million and a decrease of $1 million for the years ended December 31, 2016, 2015 and 2014, 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.

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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.

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, 2016				As of December 31, 2015			
	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	$282,515	$ 5,501	$38,904	$ 1,356	$252,528	$ 4,598	$37,795	$ 1,022
Trading account assets:								
Fixed maturities	23,143	747	160	0	29,091	840	176	0
Equity securities	2,267	429	124	58	2,240	537	112	52
All other(2)	1,760	1	0	0	3,361	5	0	0
Subtotal	27,170	1,177	284	58	34,692	1,382	288	52
Equity securities, available-for-sale	7,176	253	2,572	12	6,547	264	2,727	2
Commercial mortgage and other loans	519	0	0	0	274	0	0	0
Other long-term investments(3)	146	7	3	0	172	39	10	10
Short-term investments	6,383	1	799	0	6,270	0	1,217	0
Cash equivalents	7,108	0	1,198	0	13,143	0	1,065	0
Other assets	0	0	0	0	16	7	0	0

Subtotal excluding separate account assets	331,017	6,939	43,760	1,426	313,642	6,290	43,102	1,086
Separate account assets(3)	262,017	1,849	0	0	259,909	1,995	0	0
Total assets	$593,034	$ 8,788	$43,760	$ 1,426	$573,551	$ 8,285	$43,102	$ 1,086
Future policy benefits	$8,238	$ 8,238	$0	$ 0	$8,434	$ 8,434	$0	$ 0
Other liabilities(2)	368	22	1	0	32	2	1	0
Notes issued by consolidated variable interest entities (“VIEs”)	1,839	1,839	0	0	8,597	8,597	0	0
Total liabilities	$10,445	$ 10,099	$1	$ 0	$17,063	$ 17,033	$1	$ 0

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(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis for PFI excluding the Closed Block division and for the Closed Block division totaled 1.5% and 3.3%, respectively, as of December 31, 2016 and 1.4% and 2.5% as of December 31, 2015.

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

(3) Prior period amounts are presented on a basis consistent with the current period presentation, reflecting the adoption of ASU 2015-07.

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 $4.4 billion of public fixed maturities as of December 31, 2016 with values primarily based on indicative broker quotes, and approximately $1.8 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.

Separate Account Assets

Separate account assets included in Level 3 primarily include corporate securities and commercial mortgage loans. The valuation of corporate securities are determined as described above for fixed maturity and equity securities. See Note 20 to the Consolidated Financial Statements for additional information on the valuation of commercial mortgage loans. Separate account liabilities are reported at contract value and not at fair value.

Variable Annuity Living Benefit Features

Future policy benefits classified in Level 3 primarily include liabilities related to guarantees associated with the living benefit features of certain variable annuity contracts offered by our Individual Annuities segment, including 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 future rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, based on capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. These models utilize significant assumptions that are primarily unobservable, including assumptions as to lapse rates, NPR, utilization rates, withdrawal rates, mortality rates and equity market volatility. Future policy benefits classified as Level 3 for PFI excluding the Closed Block division were a net liability of $8.2 billion as of December 31, 2016. 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 corresponding bank loan collateral.

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

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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;
- 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.

Effective January 1, 2016, the Company classifies fixed maturity prepayment fees and call premiums in "Net investment income" rather than "Realized investment gains (losses), net." The impact of this change to prior periods was immaterial.

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 derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. We also 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. In addition, equity-based and interest rate derivatives 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 the required accounting for associated hedged assets and liabilities may or may not be similar.

Accordingly, realized investment gains and losses from our derivative activities can contribute significantly to fluctuations in net income. For a further discussion of 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. Additionally, adjusted operating income generally excludes realized investment gains and losses from products that contain embedded derivatives, and from associated derivative portfolios that are part of an asset liability management program related to the risk of those products. However, the effectiveness of the hedging program will ultimately be reflected in adjusted operating income over time. For additional details regarding adjusted operating income, see Note 22 to the Consolidated Financial Statements.

The following table sets forth "Realized investment gains (losses), net," by investment type as well as related charges and adjustments for the periods indicated:

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	Year Ended December 31,		
	2016	2015	2014
	(in millions)		
Realized investment gains (losses), net:			
PFI excluding Closed Block division	$1,760	$3,192	$475
Closed Block division	434	833	1,161
Consolidated realized investment gains (losses), net	$2,194	$4,025	$1,636
PFI excluding Closed Block Division:			
Realized investment gains (losses), net:			
Fixed maturity securities	$617	$1,431	$753
Equity securities	127	4	81
Commercial mortgage and other loans	54	36	79
Derivative instruments	1,013	1,775	(445)
Other	(51)	(54)	7
Total	$1,760	$3,192	$475
Related adjustments	(771)	(934)	(4,063)
Realized investment gains (losses), net, and related adjustments	989	2,258	(3,588)
Related charges	(466)	(679)	(542)
Realized investment gains (losses), net, and related charges and adjustments	$523	$1,579	$(4,130)
Closed Block Division:			
Realized investment gains (losses), net:			
Fixed maturity securities	$49	$203	$441
Equity securities	249	447	431
Commercial mortgage and other loans	1	1	31
Derivative instruments	162	195	263
Other	(27)	(13)	(5)
Total	$434	$833	$1,161

2016 to 2015 Annual Comparison

PFI excluding Closed Block Division

The following table sets forth net realized gains (losses) on fixed maturity securities, as of the dates indicated:

	Year Ended December 31,	
	2016	2015
	(in millions)	
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$1,229	$1,809
Gross realized investment losses:		
Net OTTI recognized in earnings(2)	(144)	(97)
Gross losses on sales and maturities(3)	(456)	(273)
Credit-related losses on sales	(12)	(8)
Total gross realized investment losses	(612)	(378)
Realized investment gains (losses), net—Fixed Maturity Securities	$617	$1,431
Net gains (losses) on sales and maturities—Fixed Maturity Securities(1)	$773	$1,536

(1) During 2016, fixed maturity prepayment fees and call premiums were reclassified to "Net investment income." Prior periods were not restated. The impact of this change was immaterial.

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(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.

(3) Excludes OTTI and credit-related losses through sales of investments due to expected near-term credit conditions of an underlying issuer.

Net gains on sales and maturities of fixed maturity securities were $773 million in 2016. Excluding energy sector losses, net gains of $966 million were primarily from sales and maturities of U.S. dollar-denominated securities within our International Insurance segment. The net gains in 2016 were partially offset by net trading losses of approximately $193 million on sales of securities within the energy sector. Net gains on sales and maturities of fixed maturity securities were $1,536 million in 2015 primarily due to net gains of $1,363 million on sales and maturities of U.S. dollar-denominated securities within our International Insurance segment. See below for additional information regarding the OTTI of fixed maturity securities in 2016 and 2015.

Net realized gains on equity securities were $127 million and $4 million for the years ended December 31, 2016 and 2015, respectively, and included net gains on sales of equity securities of $188 million and $115 million, respectively. Both periods' gains were partially offset by OTTI of $61 million and $111 million for the years ended December 31, 2016 and 2015, respectively. See below for additional information regarding the OTTI of equity securities in 2016 and 2015.

Net realized gains on commercial mortgage and other loans for the year ended December 31, 2016 were $54 million, primarily driven by servicing revenue of $53 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 for the year ended December 31, 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. 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 $1,013 million and $1,775 million for the years ended December 31, 2016 and 2015, respectively. The net derivative gains in 2016 primarily reflect $523 million of gains on product-related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts, $192 million of gains on currency derivatives in Japan operations used to hedge non-Japanese yen denominated investments as the Japanese yen strengthened against various currencies, $172 million of gains on currency derivatives in U.S. operations used to hedge foreign denominated investments as the U.S. dollar strengthened against various currencies and $157 million of gains primarily representing the fees earned on fee-based guaranteed investment contracts ("GICs") which are accounted for as derivatives. 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 GICs.

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 2016 and 2015 included net negative related adjustments of $771 million and $934 million, respectively, primarily driven by settlements on interest rate and currency derivatives.

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 2016 included net related charges of $466 million, compared to net related charges of $679 million in 2015. Both periods’ results were driven by the impact of derivative activity on the amortization of DAC and other costs and certain policyholder reserves. Results for 2016 were partially offset by a benefit of $515 million from the implementation of a new ALM strategy in the Individual Annuities segment discussed above. For additional information, see Note 22 to the Consolidated Financial Statements.

The following tables set forth, for the periods indicated, the composition of OTTI recorded in earnings attributable to PFI excluding the Closed Block division by asset type and for fixed maturity securities by reason:

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	Year Ended December 31,	
	2016	2015
	(in millions)	
Public fixed maturity securities	$ 56	$ 31
Private fixed maturity securities	88	66
Total fixed maturity securities	144	97
Equity securities	61	111
Other invested assets(1)	57	121
Total(2)	$ 262	$ 329

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(1) Includes OTTI related to investments in joint ventures and limited partnerships.

(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.

	Year Ended December 31,	
	2016	2015
	(in millions)	
Due to credit events or adverse conditions of the respective issuers(1)	$ 111	$ 82
Due to other accounting guidelines(2)	33	15
Total fixed maturity securities(3)	$ 144	$ 97

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

(2) Primarily represents circumstances where securities are being actively marketed for sale by the company and where securities with losses from foreign currency exchange rate movements approach maturity.

(3) 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.

Fixed maturity security OTTI in 2016 were concentrated in the energy, capital goods and transportation sectors within corporate securities. Fixed maturity security OTTI in 2015 were concentrated in the industrial other, consumer cyclical and energy sectors within corporate securities. In both periods, 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 both 2016 and 2015 were primarily due to the extent and duration of declines in values.

Other invested assets OTTI in 2016 and 2015 were primarily due to the extent and duration of declines in values of investments in private equity limited partnerships.

Closed Block Division

The following table sets forth net realized gains (losses) on fixed maturity securities, as of the dates indicated:

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	Year Ended December 31, 2016	2015
	(in millions)	
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 204	$ 306
Gross realized investment losses:		
Net OTTI recognized in earnings(2)	(78)	(44)
Gross losses on sales and maturities(3)	(73)	(57)
Credit-related losses on sales	(4)	(2)
Total gross realized investment losses	(155)	(103)
Realized investment gains (losses), net—Fixed Maturity Securities	$ 49	$ 203
Net gains (losses) on sales and maturities—Fixed Maturity Securities(1)	$ 131	$ 249

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(1) During 2016, fixed maturity prepayment fees and call premiums were reclassified to “Net investment income.” Prior periods were not restated. The impact of this change was immaterial.

(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.

(3) Excludes OTTI and credit-related losses through sales of investments due to expected near-term credit conditions of an underlying issuer.

Net realized gains on equity securities were $249 million and $447 million for the years ended December 31, 2016 and 2015, respectively, resulting from net gains on sales partially offset by OTTI of $13 million and $15 million, respectively. See below for additional information regarding the OTTI of equity securities in 2016 and 2015.

Net realized gains on derivatives were $162 million and $195 million for the years ended December 31, 2016 and 2015, respectively. The net derivative gains in 2016 primarily reflect $132 million of gains on currency derivatives used to hedge foreign denominated investments as the U.S. dollar strengthened against various currencies and $30 million of gains on interest rate derivatives used to manage duration as interest rates increased. 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.

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, 2016	2015
	(in millions)	
Public fixed maturity securities	$ 22	$ 9
Private fixed maturity securities	56	35
Total fixed maturity securities	78	44
Equity securities	13	15
Other invested assets(1)	30	21
Total(2)	$ 121	$ 80

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(1) Includes OTTI related to investments in joint ventures and limited partnerships.

(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.

	Year Ended December 31,	
	2016	2015
	(in millions)	
Due to credit events or adverse conditions of the respective issuers(1)	$ 65	$ 41
Due to other accounting guidelines(2)	13	3
Total fixed maturity securities(3)	$ 78	$ 44

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

(2) Primarily represents circumstances where securities are being actively marketed for sale by the company and where securities with losses from foreign currency exchange rate movements approach maturity.

(3) 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.

Fixed maturity security OTTI in 2016 were concentrated in the energy, transportation and industrial other sectors within corporate securities. Fixed maturity security OTTI in 2015 were concentrated in foreign government securities and the industrial other and consumer cyclical sectors within corporate securities. In both periods 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 both 2016 and 2015 were primarily due to the extent and duration of declines in values.

Other invested assets OTTI in 2016 and 2015 were primarily due to the extent and duration of declines in values of investments in private equity limited partnerships.

2015 to 2014 Annual Comparison

PFI excluding Closed Block Division

The following table sets forth net realized gains (losses) on fixed maturity securities as of dates indicated:

	Year Ended December 31,	
	2015	2014
	(in millions)	
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 1,809	$ 1,154
Gross realized investment losses:		
Net OTTI recognized in earnings(2)	(97)	(36)
Gross losses on sales and maturities(3)	(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)	$ 1,536	$ 827

(1) Amounts include fixed maturity prepayment fees and call premiums.

(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.

(3) Excludes OTTI and credit-related losses through sales of investments due to expected near-term credit conditions of an underlying issuer.

Net gains on sales and maturities of fixed maturity securities were $1,536 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. These gains were partially offset by OTTI of $97 million. Net gains on sales and maturities of fixed maturity securities of $827 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 additional 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 December 31, 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 December 31, 2015 and 2014, respectively. See below for additional information regarding the OTTI of equity securities in 2015 and 2014.

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Net realized gains on commercial mortgage and other loans for the year ended December 31, 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 December 31, 2014 and 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 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 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 of 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 of gains of fees earned on fee-based GICs.

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 limited partnership investments. See below for additional information regarding the OTTI of other invested assets in 2015 and 2014.

Related adjustments for 2015 included net negative related adjustments of $934 million primarily driven by settlements on interest rate and currency derivatives. Results for 2014 included net negative related adjustments of $4,063 million primarily 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—Impact of Foreign Currency Exchange Rates" above.

Related charges for 2015 and 2014 included net related charges of $679 million and $542 million, respectively. Both periods' results were driven by the impact of derivative activity on the amortization of DAC and other costs and certain policyholder reserves.

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)	

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(1)	121	21
Total(2)	$ 329	$ 83

(1) Includes OTTI related to investments in joint ventures and limited partnerships and real estate investments.

(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.

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	Year Ended December 31,	
	2015	2014
	(in millions)	
Due to credit events or adverse conditions of the respective issuers(1)	$ 82	$ 24
Due to other accounting guidelines(2)	15	12
Total fixed maturities(3)	$ 97	$ 36

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

(2) Primarily represents circumstances where securities with losses from foreign currency exchange rate movements approach maturity.

(3) 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.

Fixed maturity security OTTI in 2015 were concentrated in the industrial other, consumer cyclical and energy sectors within corporate securities. Fixed maturity security OTTI in 2014 were concentrated in the utility, consumer cyclical and finance sectors within corporate securities. In both periods, 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 both 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

The following table sets forth net realized gains (losses) on fixed maturity securities, as of the dates indicated:

	Year Ended December 31,	
	2015	2014
	(in millions)	
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 306	$ 510
Gross realized investment losses:		