PRUDENTIAL FINANCIAL INC
Form 10-K
February 20, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014**

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, 2014, the aggregate market value of the registrant s Common Stock (par value $0.01) held by non-affiliates of the registrant was $40.69 billion and 458 million shares of the Common Stock were outstanding. As of January 31, 2015, 454 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 12, 2015, 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, 2014.

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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 variations of such 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 and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (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 in connection with our divestiture or winding down of businesses; (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) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing projected results of acquisitions; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; and (26) Prudential Financial, Inc. s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See Risk Factors included in this Annual Report on Form 10-K for discussion of certain risks relating to our businesses and investment in our securities.

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

PART I

ITEM 1. BUSINESS

Overview

Prudential Financial, Inc., a financial services leader with approximately $1.176 trillion of assets under management as of December 31, 2014, 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.

We maintain diversified investment portfolios in our insurance companies to support our liabilities to customers, as well as our other general liabilities. Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities and other invested assets. As of December 31, 2014, the general account investment portfolio totaled $409 billion. For additional information on our investment portfolio, see Management s Discussion and Analysis of Financial Condition and Results of Operations General Account Investments and Note 4 to the Consolidated Financial Statements.

Demutualization and 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 an indirect, wholly-owned subsidiary of Prudential Financial. The demutualization was carried out under Prudential Insurance s Plan of Reorganization, dated as of December 15, 2000, as amended, which we refer to as the Plan of Reorganization. On the date of demutualization, eligible policyholders, as defined in the Plan of Reorganization, 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. In addition, on the date of demutualization, Prudential Holdings, LLC (PHLLC), a wholly-owned subsidiary of Prudential Financial that owns the capital stock of Prudential Insurance, issued $1.75 billion in senior secured notes, which we refer to as the IHC Debt.

The Plan of Reorganization required us to establish and operate a regulatory mechanism known as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations of holders of participating individual life insurance policies and annuities included in the Closed Block for future policy dividends after demutualization by allocating assets that will be used for payment of benefits, including policyholder dividends, on these policies. See Note 12 to the Consolidated Financial Statements and Closed Block Business below for more information on the Closed Block.

From demutualization through December 31, 2014, the businesses of Prudential Financial have been separated into the Financial Services Businesses and the Closed Block Business for financial statement purposes. For a discussion of the operating results of the Financial Services Businesses and the Closed Block Business, see Management s Discussion and Analysis of Financial Condition and Results of Operations. See Financial Services Businesses below for a more detailed discussion of the divisions that comprised the Financial Services Businesses. The Closed Block Business comprised the assets and related liabilities of the Closed Block and certain other assets and liabilities, including the IHC Debt. We refer to the Financial Services Businesses and the Closed Block Business collectively as the Businesses. In January 2015 we completed a series of transactions that resulted in the elimination of the separation of the Businesses for financial statement purposes beginning in the first quarter of 2015 as described below under Elimination of the Separation of the Businesses.

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From demutualization through December 31, 2014, Prudential Financial has had two classes of common stock: the Common Stock, which is publicly traded (NYSE:PRU) and which has 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 has reflected the performance of the Closed Block Business. In January 2015 we repurchased and cancelled all of the outstanding Class B Stock as described below under Elimination of the Separation of the Businesses.

This Annual Report on Form 10-K relates to the fiscal year ended December 31, 2014 and, accordingly, follows the historic, separate presentation of each of the businesses.

Financial Services Businesses and Closed Block Business

The following diagram reflects the allocation, prior to January 2015, of Prudential Financial s consolidated assets and liabilities between the Financial Services Businesses and the Closed Block Business:

The foregoing allocation of assets and liabilities did not require Prudential Financial, Prudential Insurance, or any of their subsidiaries or the Closed Block to transfer any specific assets or liabilities to a separate legal entity, and there was no legal separation of the two Businesses. Financial results of the Closed Block Business, including debt service on the IHC Debt, affected Prudential Financial s consolidated results of operations, financial position and borrowing costs. In addition, any net losses of the Closed Block Business, and any dividends or distributions on the Class B Stock, reduced the assets of Prudential Financial legally available for dividends on the Common Stock. Accordingly, the financial information for the Financial Services Businesses should be read together with the consolidated financial information of Prudential Financial.

In order to separately reflect the financial performance of the Financial Services Businesses and the Closed Block Business from demutualization through December 31, 2014, we have allocated all of our assets and liabilities and earnings between the two Businesses, and we have accounted for them as if they were separate legal entities. All assets and liabilities of Prudential Financial and its subsidiaries not included in the Closed Block Business constituted the assets and liabilities of the Financial Services Businesses. The Closed Block Business has consisted principally of:

- within Prudential Insurance, the Closed Block assets, Surplus and Related Assets (see below), deferred policy acquisition costs and other assets in respect of the policies included in the Closed Block and, with respect to liabilities, the Closed Block liabilities and other liabilities associated with Surplus and Related Assets;

- within PHLLC, dividends received from Prudential Insurance, certain tax benefits and reinvestment proceeds thereof, the principal amount of the IHC Debt, related unamortized debt issuance costs and hedging activities, and a guaranteed investment contract; and

- within Prudential Financial, the Class B Stock and associated activity.

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The Closed Block assets consist of (1) those assets initially allocated to the Closed Block including fixed maturities, equity securities, commercial loans and other long- and short-term investments; (2) cash flows from such assets; (3) assets resulting from the reinvestment of such cash flows; (4) cash flows from the Closed Block policies; and (5) assets resulting from the investment of cash flows from the Closed Block policies. The Closed Block assets also include policy loans, accrued interest on any of the foregoing assets and premiums due on the Closed Block policies. The Closed Block liabilities are Closed Block policies and other liabilities of the Closed Block associated with the Closed Block assets. From demutualization through December 31, 2014, the Closed Block assets and Closed Block liabilities have been supported by additional assets held outside of the Closed Block by Prudential Insurance, to provide additional capital with respect to the Closed Block policies, as well as invested assets held outside of the Closed Block that initially represented the difference between the Closed Block assets and the sum of the Closed Block liabilities and the interest maintenance reserve, which are collectively referred to as the Surplus and Related Assets.

Within the Closed Block Business, the assets and cash flows attributable to the Closed Block accrue solely to the benefit of the Closed Block policyholders through policyholder dividends after payment of benefits, expenses and taxes. Prior to the redemption and cancellation of the Class B Stock on January 2, 2015, the Surplus and Related Assets accrued to the benefit of the holders of Class B Stock. The earnings on, and distribution of, the Surplus and Related Assets over time have been the source or measure of payment of the interest and principal of the IHC Debt and of dividends on the Class B Stock.

Prudential Financial s Board of Directors adopted inter-business transfer and allocation policies relating to payments, loans, capital contributions, transfers of assets and other transactions between the Closed Block Business and the Financial Services Businesses and the allocation between the two Businesses of tax costs and benefits, which was terminated in January 2015 as described under Elimination of the Separation of the Businesses.

Cash payments for administrative services from the Closed Block Business to the Financial Services Businesses were based on formulas that initially approximated the actual expenses incurred by the Financial Services Businesses to provide such services based on insurance policies and annuities in force and statutory cash premiums. Administrative expenses recorded by the Closed Block Business, and the related income tax effect, have been based upon actual expenses incurred under accounting principles generally accepted in the U.S., or U.S. GAAP, utilizing the Company s methodology for the allocation of such expenses. Any difference in the cash amount transferred and actual expenses incurred as reported under U.S. GAAP has been recorded, on an after-tax basis at the applicable current tax rate, as direct adjustments to the respective equity balances of the Closed Block Business and the Financial Services Businesses, without the issuance of shares of either Business to the other Business. This direct equity adjustment has modified earnings available to each class of common stock for earnings per share purposes. As a result of the elimination of the separation of the Businesses described below, the direct equity adjustment will no longer be recorded for reporting periods commencing after December 31, 2014. Internal investment expenses recorded and paid by the Closed Block Business, and the related income tax effect, have been based upon actual expenses incurred under U.S. GAAP and in accordance with internal arrangements governing recordkeeping, bank fees, accounting and reporting, asset allocation, investment policy and planning and analysis.

Elimination of the Separation of the Businesses

On December 1, 2014, Prudential Financial entered into a Share Repurchase Agreement (the Share Repurchase Agreement) with National Union Fire Insurance Company of Pittsburgh, P.A., Lexington Insurance Company and Pacific Life Corp., the holders of 100% of the outstanding shares of the Class B Stock (the Class B Holders). Pursuant to the Share Repurchase Agreement, on January 2, 2015, Prudential Financial repurchased from the Class B Holders 2.0 million shares of the Class B Stock, representing all of the outstanding shares of the Class B Stock, for an aggregate cash purchase price of $650.8 million (the Class B Repurchase). The purchase price was determined by an independent appraiser under the methodology set forth in Prudential Financial s Amended and Restated Certificate of Incorporation. Pursuant to the Share Repurchase Agreement, holders of a majority of the Class B Stock may dispute the purchase price prior to April 6, 2015, and any dispute may be resolved through arbitration. Accordingly, the final purchase price of the Class B Stock may change in the event of a dispute. In addition, on December 18, 2014, PHLLC redeemed all of the then outstanding IHC Debt, for an aggregate redemption price of $2.1 billion.

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As a result of the Class B Repurchase, for reporting periods commencing after December 31, 2014, the Company s earnings per share of Common Stock will reflect the consolidated earnings of Prudential Financial, and the distinction between the Financial Services Businesses and the Closed Block Business will be eliminated for financial statement purposes. The results of the Closed Block, along with certain related assets and liabilities, will be 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. The inter-business transfer and allocation policies relating to transactions between the Businesses were terminated in connection with these transactions. The Closed Block will continue to be subject to the fee and expense allocation arrangements in the Plan of Reorganization, and the Company s tax allocation agreement.

The Company funded the Class B Repurchase and the IHC Debt redemption (we refer to these together as the Transactions) from the sale of a portion of the Surplus and Related Assets and funds available within PHLLC, which were associated with the Closed Block Business.

The Transactions did not eliminate the Closed Block. The insurance policies and annuity contracts comprising the Closed Block will continue to be managed in accordance with the Plan of Reorganization. Prudential Insurance will remain directly obligated for the insurance policies and annuity contracts in the Closed Block. The Transactions do not change the Closed Block assets allocated to support the Closed Block s liabilities, policyholder dividend scales or the methodology for determining policyholder dividends. Accordingly, these transactions will have no impact on the guaranteed benefits, premiums or dividends for Closed Block policyholders.

Financial Services Businesses

The Financial Services Businesses are comprised of three divisions, containing six segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division is comprised of the Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division is comprised of the Individual Life and Group Insurance segments. The International Insurance division is comprised of the International Insurance segment.

For reporting periods commencing after December 31, 2014, the Company will no longer refer to the aforementioned divisions as the Financial Services Businesses, but will continue to report on these divisions and segments and our Corporate and Other operations. In addition, the Company will include the Closed Block division, which will include the Closed Block segment.

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. In general, we consider households with investable assets or annual income in excess of $100,000 to be mass affluent in the U.S. market. We focus on innovative product design and risk management strategies.

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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, 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 scale back benefits, change pricing, and reduce commissions as well as closing of a share class. We also suspended or limited additional contractholder deposits for variable annuities with certain optional living benefit riders that are no longer being offered. Similarly, certain of our competitors have taken actions to implement modifications which scale back benefits or to exit, or limit their presence in, the variable annuity marketplace. Despite these actions, our contract retention has remained strong, and we believe our product offerings are competitive relative to substitute products currently available in the marketplace. In addition, we have introduced new products to broaden our offerings and diversify our risk profile, as discussed below, and have incorporated provisions in product design allowing frequent revisions of key pricing elements. We continue to look for opportunities to further enhance and differentiate our current suite of products to meet the retirement needs of our contractholders 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 guaranteed minimum death benefits), and annuitization options. The majority of our currently sold contracts include an optional living benefit guarantee which provides, among other features, the ability to make withdrawals based on the highest daily contract value plus a specified return, credited for a period of time. This guaranteed 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. In 2014, we launched the Prudential Premier® with Highest Daily Lifetime Income (HDI) 3.0 Variable Annuity, which offers lifetime income based on the highest daily account value plus a compounded deferral credit. Also in 2013, we launched the Prudential Defined Income (PDI) Variable Annuity to complement the variable annuity products we offer with the highest daily benefit. PDI provides for guaranteed lifetime withdrawal payments, but restricts contractholder investment to a single bond sub-account within the separate account. PDI includes a living benefit rider which provides for a specified lifetime income withdrawal rate applied to the initial premium paid, subject to annual roll-up increases in this rate until lifetime withdrawals commence, but does not have the highest daily feature.

In addition, 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. 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.

We also offer immediate annuities and variable annuities without guaranteed living benefits. In the first quarter of 2014, we launched the Prudential Immediate Income Annuity, which is a fixed single premium, immediate annuity that provides fixed payments over a specific time period. In the second quarter of 2014, we launched the Prudential Premier® Investment Variable Annuity, which offers tax-deferred asset accumulation with an optional death benefit that guarantees the contractholder s beneficiary a return of total purchase payments made to the contract, adjusted for any partial withdrawals, upon death.

Excluding our PDI product, the majority of our variable annuities generally provide our contractholders with the opportunity to allocate purchase payments to sub-accounts that invest in underlying proprietary and/or non-proprietary mutual funds, frequently under asset allocation programs. Certain products also allow or require allocation to fixed-rate accounts that are invested in the general account and are credited with interest at rates we determine, subject to certain minimums. We also offer fixed annuities that provide a guarantee of principal and

interest credited at rates we determine, subject to certain contractual minimums. Certain allocations made in the fixed-rate accounts of our variable annuities and certain fixed annuities impose a market value adjustment if the invested amount is not held to maturity.

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 for Financial Services Businesses 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, wirehouses, and through independent financial planners. Additionally, our variable annuity products are distributed through insurance agents, including Prudential Agents and the agency distribution force of The Allstate Corporation (Allstate). Our distribution efforts are supported by a network of 270 internal and external wholesalers as of December 31, 2014.

Underwriting and Pricing

We earn asset management fees determined as a percentage of the average assets of the mutual funds in our variable annuity products, net of sub-advisory expenses related to non-proprietary funds. Additionally, we earn mortality and expense 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 fees from many of the proprietary and non-proprietary mutual funds.

We price our variable annuities based on an evaluation of the risks assumed and consideration of applicable hedging 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 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 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 in accordance with U.S. GAAP for future contractholder benefits and expenses. For our guaranteed minimum death and income benefits, we base the reserves on assumptions we believe to be appropriate such as investment yields, equity returns, persistency, expenses, withdrawal timing and efficiency, mortality, and utilization. Certain of the living benefit guarantee features on variable annuity

contracts are accounted for as embedded derivatives and are carried at fair value. The fair values of these benefit features are calculated as the present value of future expected benefit payments to contractholders less the present value of assessed rider fees attributable to the embedded derivative feature, and are based on assumptions a market participant would use in valuing these embedded derivatives. For variable and fixed annuity contracts, we establish liabilities for contractholders account balances that represent cumulative gross premium payments plus credited interest and/or fund performance, less withdrawals, mortality and expense charges.

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, institutional and retail notes, structured settlement annuities and other group annuities for defined contribution plans, defined benefit plans, non-qualified plans, and individuals.

Competition

The Retirement segment competes with other large, well-established insurance companies, asset managers, recordkeepers and diversified financial institutions. In our full service business, we compete primarily based on pricing, the breadth of our service and investment offerings, investment performance, and our ability to offer product features to meet the retirement income needs of our clients. Over the past several years, we have experienced increased unbundling of the purchase decision related to the recordkeeping and investment offerings, where the variety and flexibility of available funds and their performance are key selection criteria to plan sponsors and intermediaries. We have also experienced heightened pricing pressures, driven by regulations requiring more standard and consistent fee disclosures across industry providers. Additionally, we have seen slow case turnover in our mid to large case target markets.

In our institutional investment products business, we compete primarily based on our pricing and structuring capabilities, as well as our ability to offer innovative product solutions. 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. However, increased competition and existing intermediary relationships reaching saturation levels have impacted our momentum in the stable value wrap market. For certain other institutional investment products, such as payout annuity contracts, issuances over the past several years were impacted by unfavorable economic conditions and other competitive factors. We have recently experienced an increase in new issuances of certain of these products; however, maturing contracts continue to outpace new issuances.

Products and Services

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

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 giving effect to previous investment experience. We earn profits from partially participating products from the spread between the rate of return we earn on the investments and the interest rates we credit, less expenses. In addition, we may earn administrative fees for providing recordkeeping and other administrative services for both fully and partially participating products.

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

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

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

Payout Annuity Markets. Our payout annuity area offers innovative pension risk transfer products, as well as traditional general and separate account products designed to provide a predictable source of monthly income, generally for the life of the participant.

Our innovative 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 traditional 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.

In 2012, we completed two significant non-participating group annuity pension risk transfer transactions for which the premiums associated with these transactions represented approximately 38% of Prudential Financial s 2012 total consolidated revenue.

Our traditional general and separate account 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 result from 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 include both participating and non-participating contracts. Our participating contracts are 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. Our non-participating contracts provide pension benefit guarantees to defined benefit plan participants. Under U.S. GAAP, the non-participating contracts are treated as general account products, and have economic features similar to our general account annuity contracts, but offer the added protection of an insulated separate account.

Stable Value Markets. Our stable value area manufactures investment-only products for use in retail and institutional capital markets and qualified plan markets. Our primary stable value product offerings are investment-only wraps through which customers funds are held in a client-owned trust. These are participating contracts for which investment results pass through to the customer, subject to a minimum interest rate guarantee backed by the general account, and we earn fees for providing this guarantee. For contracts currently in force, the minimum interest rate has a floor of zero percent. The fees we earn for providing this guarantee may be reset as defined by the underlying contracts. Contractholders are provided with proprietary and non-proprietary flexible fund investment alternatives.

We also offer investment-only general account products in the form of GICs, funding agreements, and institutional and retail notes. These products contain an obligation to pay interest at a specified rate and to repay principal at maturity or following contract termination. Because

these obligations are backed by our general account, we bear the investment and asset/liability management risk associated with these contracts. Generally, profits from these products result from the spread between the rates of return we earn on the investments and the interest rates we credit, less expenses.

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Marketing and Distribution

We distribute our products through a variety of channels. In our full service business, our dedicated sales and support teams manage our distribution efforts in offices across the country. We sell our products and services through third-party financial advisors, brokers, and benefits consultants and, to a lesser extent, directly to plan sponsors.

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 and institutional notes to investors. We also manage a global Funding Agreement Notes Issuance Program (FANIP), pursuant to which a statutory trust issues medium-term notes secured by funding agreements issued to the trust by Prudential Insurance. Prudential Insurance may also issue funding agreements directly to the Federal Home Loan Bank of New York (FHLBNY).

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

Underwriting and Pricing

We set our rates for our stable value products within our full service and institutional investment products businesses using pricing models that consider the investment environment and our risk, expense and profitability assumptions. In addition, for products within our payout annuity area, our models also use assumptions for mortality and 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 in accordance with U.S. GAAP. We establish reserves for future policyholder benefits and expenses based on assumptions we believe to be appropriate for investment yield, expenses, mortality rates, retirement and other behavioral assumptions where applicable, as well as provisions for adverse deviation as appropriate. Additionally, we 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.

Asset Management

The Asset Management segment provides a broad array of investment management and advisory services by means of institutional portfolio management, retail funds management, private lending and asset securitization activity and other structured products. These products and services are provided to third party clients as well as other Prudential businesses. We also invest in asset management and investment distribution businesses in targeted countries, including through investments in operating joint ventures, to expand our mass affluent customer base outside the U.S. and to increase our global assets under management.

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

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Competition

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

Products and Services

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

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

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

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

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

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

Prudential Real Estate Investors. Prudential Real Estate Investors provides asset management services for single-client and commingled private and public real estate portfolios, and manufactures and manages a variety of real estate investment vehicles investing in private and public real estate, primarily for institutional clients through offices worldwide. Our domestic and international real estate investment vehicles range from fully diversified open-end funds to specialized closed-end funds that invest in specific types of properties or designated geographic regions or follow other specific investment strategies. Our global real estate organization has an established presence in the U.S., Europe, Asia and Latin America.

Prudential Investments. Prudential Investments manufactures, distributes and services investment management products primarily utilizing proprietary asset management expertise in the U.S. retail market. These products are designed to be sold primarily by financial professionals including both Prudential Agents and third

party advisors. We offer a family of retail investment products consisting of over 65 mutual funds as of December 31, 2014. These products cover a wide array of investment styles and objectives designed to attract and retain assets of individuals with varying objectives and to accommodate investors changing financial needs.

Prudential International Investments. 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 India and Taiwan, and our operating joint ventures in Italy and Brazil that are accounted for under the equity method.

In addition, we make strategic investments to support the creation and management of funds offered to third-party investors in private and public real estate, fixed income and public equities asset classes. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other strategic investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). We also make loans to, and guarantee obligations of, our managed funds that are secured by equity commitments from investors or assets of the funds.

Marketing and Distribution

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

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

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

U.S. Individual Life and Group Insurance Division

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

Individual Life

Our Individual Life segment manufactures and distributes individual variable life, term life and universal life insurance products primarily to the U.S. mass middle, mass affluent and affluent markets. In general, we consider households with investable assets or annual income in excess of

$100,000 to be mass affluent and households with investable assets in excess of $250,000 to be affluent in the U.S. market. Our life products are distributed through independent third party distributors and Prudential Agents.

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

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Competition

The Individual Life segment competes with 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 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; and the level and volatility of interest rates.

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

Products

Our primary insurance products are term life, variable life and universal life, which represent 41%, 36% and 22%, respectively, of our face amount of individual life insurance in force, net of reinsurance at the end of 2014. Our product diversification strategy has decreased sales of no lapse guaranteed universal life and increased the sales of non-guaranteed products. This strategy has positioned us to better balance portfolio risk and enhance our value propositions to distribution partners and their clients.

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 conversion feature that allows the policyholder to convert the policy into permanent life insurance coverage. We also offer term life insurance that provides for a return of premium if the insured is alive at the end of the level premium period. There continues to be significant demand for term life insurance protection.

Variable Life Insurance. We offer several individual variable life insurance products that provide a return linked to an underlying investment portfolio selected by the policyholder while providing the policyholder with the flexibility to change both the death benefit and premium payments. The policyholder generally has the option of investing premiums in a fixed-rate option that is part of our general account or investing in separate account investment options consisting of equity and fixed income funds. Funds invested in the fixed-rate option will accrue 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 allows for a more flexible guarantee against lapse where policyholders can select the guarantee period. Our variable life products also offer a policy rider which allows the policyholder to access accelerated death benefits when a chronic or terminal illness, meeting certain contractual requirements, exists. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance. A significant portion of Individual Life s profits, however, is associated with our large in force block of variable policies. Profit patterns on these policies are not level and insureds generally begin paying reduced policy charges as the policies age. This reduction in policy charges, coupled with net policy count and insurance in force runoff over time, reduces our expected future profits from this product line.

Universal Life Insurance. We offer universal life insurance products that feature flexible premiums, a choice of guarantees against lapse, and a crediting rate that we determine, subject to certain contractual minimums. In addition, we offer universal life insurance products that allow the policyholder to allocate a portion of their account balance into an index account that provides interest or an interest component linked to S&P 500 index performance over the following year, subject to certain participation rates and contractual minimums and maximums. Our universal

life products also offer a policy rider which allows the policyholder to access accelerated death benefits when a chronic or terminal illness, meeting certain contractual requirements, exists. Individual Life s profits from universal life insurance are impacted by mortality and expense margins and net interest spread.

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Marketing and Distribution

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 Agents. Our Prudential Agents distribute Prudential variable, term and universal life insurance, variable and fixed annuities and investment products with proprietary and non-proprietary investment options as well as selected insurance and investment products manufactured by others primarily to customers in the U.S. mass and mass affluent markets, as well as small business owners. Prudential Agents also have access to non-proprietary property and casualty products under distribution agreements entered into with the purchasers of our property and casualty insurance operations, which we sold in 2003, and other third party providers. In addition, Prudential Agents offer certain retail brokerage and retail investment advisory services through our dually registered broker-dealer and investment adviser, Pruco Securities, LLC. These services include brokerage accounts, discretionary and non-discretionary investment advisory programs and financial planning services. The number of Prudential Agents was 2,784, 2,722 and 2,615 at December 31, 2014, 2013 and 2012, respectively.

As mentioned above, the Individual Life segment distributes products offered by the Annuities and Asset Management segments and is paid a market rate by these businesses to distribute their products. These payments may be more or less than the associated distribution costs, and any profit or loss is included in the results of the Individual Life segment and eliminated in consolidation.

Underwriting and Pricing

Underwriters generally follow detailed policies and procedures to 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 base premiums and policy charges for individual life insurance on expected death benefits, surrender benefits, expenses and required reserves. We use assumptions for mortality and morbidity, interest rates, expenses, policy persistency, premium payment patterns, separate account fund performance and product-generated tax deductions, as well as the level, cost and availability of financing certain statutory reserves, in pricing policies. Deviations in actual experience from our pricing assumptions may adversely or positively impact the profitability of our products.

Reserves

We establish reserves in accordance with U.S. GAAP for future policyholder benefits and expenses. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, expenses, and mortality and morbidity rates, as well as provisions for adverse deviation, as appropriate. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported. For variable and interest-sensitive life insurance contracts, we establish liabilities for policyholders account balances that represent cumulative gross premium payments plus credited interest or fund performance, less withdrawals, and expense and cost of insurance charges.

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; however, effective in August 2014, for new term life business we reduced the amount of mortality risk reinsured, particularly on policies with smaller face amounts in order to achieve a more desirable level of mortality exposure. 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 these limits on an aggregate basis. We remain liable if a third party reinsurer is for some reason unable to meet its obligations. On a Company-wide basis, we evaluate the financial condition of reinsurers and monitor the concentration of counterparty risk to mitigate this exposure.

Group Insurance

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

Competition

We compete with other large, well-established life and health insurance providers in mature U.S. markets, and are a top provider of both group life and disability insurance. We compete primarily based on price, brand recognition, service capabilities, customer relationships, financial strength and range of product offerings. Pricing of group insurance products reflects the large number of competitors in the marketplace. The majority of our premiums are derived from large corporations, affinity groups or other organizations having over 10,000 insured individuals. We have a strong portfolio of products and the capability to offer customized benefit solutions, providing opportunities for continuing stabilized premiums. Employee-paid (voluntary) coverage has become increasingly important as employers attempt to control costs and shift benefit decisions and funding to employees who continue to value benefits offered at the workplace. Our profitability is dependent, in part, on penetration in the voluntary coverage marketplace, which will be affected by future employment and compensation rates.

Products

Group Life Insurance. Our portfolio of group life insurance products consists of employer-paid (basic) and employee-paid coverages, including term life insurance for employees and employees dependents as well as group universal life insurance. We offer group variable universal life insurance, basic and voluntary accidental death and dismemberment insurance, business travel accident insurance and a critical illness 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.

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 has 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, morbidity, interest, expenses and persistency, 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 in accordance with U.S. GAAP for future policyholder benefits and expenses. We base these reserves on assumptions we believe to be appropriate for mortality and morbidity rates, investment yields, Social Security offsets and expenses. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported. We also establish a liability for policyholders account balances that represent cumulative deposits plus credited interest or fund performance, less withdrawals, and expense and cost of insurance charges, as applicable.

Reinsurance

We use reinsurance 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 market across Japan through multiple distribution channels including banks, independent agencies and Life Consultants associated with our Gibraltar Life operations. We also provide similar products to the mass affluent and affluent markets in Japan, Korea and other countries outside the U.S. through our Life Planner operations. We commenced sales in non-U.S. markets through our Life Planner operations as follows: Japan, 1988; Taiwan, 1990; Italy, 1990; Korea, 1991; Brazil, 1998; Argentina, 1999; Poland, 2000; and Mexico, 2006. We continue to seek opportunities for expansion into high-growth markets in targeted countries.

For the year ended December 31, 2014, our Life Planner and Gibraltar Life operations in Japan represented 36% and 52%, respectively, of the net premiums, policy charges and fee income of the International Insurance segment and, in aggregate, represented 40% of the net premiums, policy charges and fee income of the Financial Services Businesses, translated on the basis of weighted average monthly exchange rates.

In addition to the operations discussed above, as of December 31, 2014, we have a 26% interest in a life insurance joint venture in India, the maximum currently allowed by regulation in India, and a 70% interest in an established life insurance business in Malaysia.

We manage each operation on a stand-alone basis through local management and sales teams, with oversight by senior executives based in Asia, Latin America and Newark, New Jersey. 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.

Acquisition of the Star and Edison Businesses

On February 1, 2011, we completed the acquisition from American International Group, Inc. of the Star and Edison Businesses, which significantly increased our scale in the Japanese life insurance market. The Star and Edison companies were merged into Gibraltar Life on January 1, 2012, and the integration of these companies has been completed.

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. The aging population throughout Asia creates an increasing need for product innovation, introducing insurance products which allow for savings and income as a growing portion of the population transitions to retirement. The ability to sell through multiple and complementary distribution channels is a competitive advantage; however, competition for sales personnel, as well as access to third party distribution channels, is intense.

Products

Our international insurance operations have a diversified product mix, primarily denominated in local currencies and emphasizing death protection while supporting the growing demand for retirement and savings products. We classify our products into four general categories: life insurance protection, accident & health, retirement and annuity, which represented 56%, 7%, 19% and 18%, respectively, of full year 2014 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. In addition, prior to October 1, 2013, we offered a yen-denominated single premium reduced death benefit whole life product. Premiums associated with this product represented approximately 5% and 10% of the Company s total consolidated revenue for 2013 and 2012, respectively.

Accident and Health Products. In most of our operations, we offer accident and health products with fixed benefits, some of which include a high savings element. These products provide benefits to cover accidental death and dismemberment, hospitalization, surgeries, 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.

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.

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 for Financial Services Businesses 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, 2014 and 2013, were 7,352 and 7,248, 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, 2014 and 2013, were 8,707 and 9,327, respectively.

Bank Distribution Channel. Our Gibraltar Life operation has been selling its products through banks since 2006. Bank distribution channel sales primarily consist of products intended to provide savings features and premature death protection as well as fixed annuity products primarily denominated in U.S. and Australian dollars. Sales in this channel from 2012 through September 30, 2013, were highly concentrated in the yen-denominated single premium reduced death benefit whole life product discussed above. We view the bank distribution channel as a supplement to our core Life Planner and Life Consultant distribution channels and will pursue it on an opportunistic basis 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 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 primarily impacted by differences between actual mortality and morbidity experience and the related assumptions used in pricing these policies. As a result, the profitability of our products can fluctuate from period to period. Deviations in actual experience from our pricing assumptions may adversely or positively impact the profitability of our products.

Reserves

We establish reserves in accordance with U.S. GAAP for future policyholder benefits and expenses. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, expenses, mortality and morbidity rates, as well as provisions for adverse deviation, as appropriate. 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.

Reinsurance

International Insurance reinsures portions of its insurance risks, primarily mortality, with selected third party reinsurers. We remain liable if a third party reinsurer is for some reason unable to meet its obligations. On a companywide 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 operations, after allocations to our business segments, and divested businesses, other than those that qualify for discontinued operations accounting treatment under U.S. GAAP. As described in Elimination of the Separation of the Businesses above, effective January 2, 2015, results of the Closed Block, along with certain related assets and liabilities, will be reported as the Closed Block division and will be 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) investment returns on capital that is not deployed in any business segments; (2) returns from 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) income and expense from qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level income and expense, after allocations to business segments, including corporate governance, corporate advertising, philanthropic activities, deferred compensation, and costs related to certain contingencies and enhanced regulatory supervision; (6) certain retained obligations relating to pre-demutualization policyholders; (7) results related to a life insurance joint venture and an asset management joint venture in China; (8) results related to our Capital Protection Framework, as discussed below; and (9) the impact of transactions with and between other segments.

Corporate Operations include results related to our Capital Protection Framework, which we employ as part of our capital management strategy. The framework considers potential capital impacts under a range of market-related stresses for which we hold on-balance sheet capital and maintain access to committed sources of capital. It includes, among other initiatives, the following:

Our capital hedge program which broadly addresses the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios.

The potential capital consequences of our living benefits hedging program, covering certain risks associated with our variable annuity products. The results of the living benefits hedging program are recorded in our Individual Annuities segment, as described under Management s Discussion and Analysis of Financial Condition and Results of Operations U.S. Retirement Solutions and Investment Management Division Individual Annuities.

The potential capital consequences under stress scenarios of our decision to manage a portion of our interest rate risk by less than fully hedging certain capital market risks associated with various operations, primarily the guarantees related to certain variable annuity living benefit riders, the results of which are described under Management s Discussion and Analysis of Financial Condition and Results of Operations Corporate and Other.

We assess the composition of these hedging programs on an ongoing basis, and we may change them from time to time based on our evaluation of the Company s risk position or other factors. 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, that did 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 March 2012, we discontinued sales of our individual long-term care products and, in July 2012, we announced our decision to cease sales of group long-term care insurance effective August 1, 2012, or a later date where required by specific state law. We ceased accepting new business applications as of June 30, 2013, for our group long-term care insurance product line, with the exception of a few cases that will remain open for new business due to contractual provisions.

We establish reserves in accordance with U.S. GAAP for future policyholder benefits and expenses. We base these reserves on assumptions we believe to be appropriate 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.

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

Property and Casualty Insurance. 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.

Individual Health and Disability Insurance. We ceased writing individual disability income policies in 1992, and a year later ceased writing hospital expense and major medical policies. Most of our individual disability income policies are non-cancelable; however, we reinsured all of these policies as of July 1999. For our hospital expense and major medical policies, the 1997 Health Insurance Portability and Accountability Act guarantees renewal. Under certain circumstances, with appropriate approvals from state regulatory authorities, we are permitted to change the premiums charged for these policies if we can demonstrate the premiums have not been sufficient to pay claims. We establish reserves in accordance with U.S. GAAP for future policyholder benefits and expenses.

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

On July 1, 2013, we sold our wealth management solutions business to Envestnet, Inc. We will continue to have an ongoing relationship with these operations until the contractual terms of the sale are fulfilled.

In 2008, we announced our intention to exit our financial advisory business, which consisted of our investment in a retail securities brokerage and clearing operations joint venture which was sold on December 31, 2009. Certain expenses relating to the businesses we originally contributed to the joint venture were retained, primarily for litigation and regulatory matters.

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. In 2000, we sold our interest in Prudential of America Life

Insurance Company (PALIC), but remain subject to mortality risk for certain assumed individual life insurance policies sold by PALIC under the terms of the reinsurance treaties. We establish reserves in accordance with U.S. GAAP for future policyholder benefits and expenses. As of December 31, 2014, the net amount at risk was $15 million.

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. For additional information related to new guidance regarding discontinued operations accounting, see Note 2 to the Consolidated Financial Statements.

Closed Block Business

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 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 Closed Block 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. For accounting purposes, we also segregated the Surplus and Related Assets that we needed to hold outside the Closed Block to meet capital requirements related to the policies included within the Closed Block at the time of demutualization. No policies sold after demutualization will be added to the Closed Block, and its in force business is expected to decline as we pay policyholder benefits in full. We also expect the proportion of our business represented by the Closed Block to decline as we grow other businesses. The Closed Block has formed the principal component of the Closed Block Business. As of December 31, 2014, total attributed equity of the Closed Block Business represented 2% of the Company s total attributed equity. For additional discussion of the Closed Block Business, see Overview above. For reporting periods commencing after December 31, 2014, the distinction between the Financial Services Businesses and the Closed Block Business will be eliminated. The results of the Closed Block, along with certain related assets and liabilities, will be referred to as the Closed Block division and treated as a divested business under our definition of adjusted operating income and reported separately from other divested businesses.

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

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

Through December 31, 2014, the long-term risks associated with the Closed Block Business have been 90% reinsured (subject to certain caps), including 17% reinsured by affiliates. We have also reinsured 90% of the short-term risks associated with the Closed Block Business to an affiliate, supported by a letter of credit facility with unaffiliated financial institutions (we refer to these arrangements, collectively, as the Reinsurance

Arrangements). These short-term risks represent the impact of variations in experience of the Closed Block that are expected to be recovered over time as a result of corresponding adjustments to policyholder dividends. The Reinsurance Arrangements were intended to alleviate the short-term surplus volatility and risk-based capital requirements within Prudential Insurance resulting from the Closed Block, including volatility caused by the impact of any unrealized mark-to-market losses or realized credit losses within the Closed Block s investment portfolio. The results of the Reinsurance Arrangements for the Closed Block Business have been reported through December 31, 2014 in the Corporate and Other operations within the Financial Services Businesses. See Note 13 to the Consolidated Financial Statements for additional discussion on the accounting for these reinsurance arrangements.

Effective January 1, 2015, we recaptured the Reinsurance Arrangements, and entered into a reinsurance agreement with a wholly-owned subsidiary of Prudential Insurance, Prudential Legacy Insurance Company of New Jersey (PLIC), pursuant to which Prudential Insurance reinsured substantially all of the outstanding liabilities of the Closed Block into a statutory guaranteed separate account of PLIC, primarily on a coinsurance basis. Under the reinsurance agreement with PLIC, approximately $57 billion of Closed Block assets were transferred to PLIC. Consistent with the participating nature of the Closed Block policies and contracts, experience of the Closed Block is ultimately passed along to policyholders over time through adjustments of the annual policyholder dividend scale. Accordingly, we believe that the likelihood of a loss to PLIC under the Reinsurance Agreement resulting from inadequacy of the amount of assets transferred to the guaranteed separate account is remote.

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 in the U.S.

On April 20, 2004, we entered into an agreement with Prudential plc of the United Kingdom, with whom we have no affiliation, concerning the parties respective rights worldwide to use the names Prudential and Pru. The agreement restricts use of the Prudential and Pru name and mark 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.

Competition

In each of our businesses, we face intense competition from insurance companies, asset managers and diversified financial institutions in the U.S. and abroad. 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. We compete in our businesses 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, risk management capabilities, capital management capabilities, and financial strength and credit ratings. The relative importance of these factors varies across our products, services and the markets we serve. The competitive landscape is, and will be, impacted by the various regulatory frameworks applied to us and our competitors.

Competition for personnel in our businesses is intense, including for executive officers and management personnel, Prudential Agents, Life Planners, Life Consultants and other sales personnel, and our investment managers. In the ordinary course of business, we lose personnel from

time to time in whom we have invested significant training. We direct substantial efforts to recruit and retain our insurance agents and employees and to increase their productivity. Competition for desirable non-affiliated distribution channels is also intense.

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Additional factors affecting the competitive landscape for our products and services are discussed within the descriptions of our business segments above.

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.

Regulation Affecting Prudential Financial

Prudential Financial is the holding company for all of our operations and is subject to supervision by the Board of Governors of the Federal Reserve System (FRB) as a Designated Financial Company pursuant to Dodd-Frank. Prudential Financial is also subject to regulation as an insurance holding company under applicable insurance laws. As a company with publicly-traded securities, Prudential Financial is subject to legal and regulatory requirements applicable generally to public companies, including the rules and regulations of the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE) relating to public reporting and disclosure, securities trading, accounting and financial reporting, and corporate governance matters.

Dodd-Frank Wall Street Reform and Consumer Protection Act

As part of the federal government s response to the financial crisis, Dodd-Frank was signed into law in July 2010. Dodd-Frank directs government agencies and bodies to conduct certain studies and promulgate regulations implementing the law, a process that is underway and is expected to continue. Dodd-Frank subjects us to substantial additional federal regulation, primarily as a Designated Financial Company as discussed below. We cannot predict with any certainty the results of the studies or the requirements of the regulations recently or not yet adopted or how Dodd-Frank and such regulations will affect the financial markets generally, impact our business, credit or financial strength ratings, results of operations, cash flows or financial condition or make it advisable or require us to hold or raise additional capital or liquid assets.

Regulation as a Designated Financial Company

Dodd-Frank established a Financial Stability Oversight Council (Council) which is authorized to subject non-bank financial companies such as Prudential Financial to stricter prudential standards and to supervision by the FRB (a Designated Financial Company) if the Council determines that material financial distress at the company or the scope of the company s activities could pose a threat to the financial stability of the U.S. In

September 2013, the Council made a final determination that Prudential Financial is a Designated Financial Company, and following an annual review, voted in November 2014 to maintain the designation. As a Designated Financial Company, Prudential Financial is now subject to supervision and examination by the Federal Reserve Bank of Boston and to stricter prudential standards, which include or will include requirements and limitations (some of which are the subject of ongoing rule-making) relating to risk-based capital, leverage, liquidity, stress-testing, overall risk management, resolution plans, credit exposure reporting, early remediation, management interlocks and credit concentration; and may also include additional standards regarding capital, public disclosure, short-term debt limits, and other related subjects at the discretion of the FRB and the Council.

Under Dodd-Frank, key aspects of regulation as a Designated Financial Company include:

Dodd-Frank requires the FRB to establish for Designated Financial Companies and certain bank holding companies stricter requirements and limitations relating to risk-based capital, leverage and liquidity. In February 2014, the FRB approved final rules for bank holding companies with $50 billion (and in some

cases, $10 billion) or more in total consolidated assets and certain foreign banking organizations that implement certain of these and other prudential standards. The final rules incorporate a number of enhanced prudential standards that had previously been finalized and were in effect for U.S. bank holding companies, including minimum leverage and risk-based capital requirements, requirements to submit annual capital plans to the FRB demonstrating the ability to satisfy the required capital ratios under baseline and stressed conditions, and stress-testing requirements. The final rules do not apply to Designated Financial Companies such as Prudential Financial. Dodd-Frank authorizes the FRB to tailor its application of enhanced prudential standards to different companies on an individual basis or by category, and the FRB has indicated that it intends to assess the business model, capital structure and risk profile of Designated Financial Companies to determine how enhanced prudential standards should apply to them, and, if appropriate, to tailor the application of these standards for Designated Financial Companies by order or regulation. The FRB has stated that it expects to take into account the differences among bank holding companies and Designated Financial Companies, including insurance companies, when applying the enhanced prudential standards required by Dodd-Frank. We cannot predict how the FRB will apply these prudential standards to us as a Designated Financial Company, or when the prudential standards ultimately adopted or ordered with respect to Prudential Financial will begin to be applied.

Section 171 of Dodd-Frank (the Collins Amendment) requires that Designated Financial Companies be subject to capital requirements that are no less stringent than the requirements generally applicable to insured depository institutions and that are not quantitatively lower than the requirements in effect for insured depository institutions as of July 21, 2010. In July 2013, the FRB approved final rules, based on accords established by the Basel Committee on Banking Supervision, that substantially revise the risk-based capital requirements applicable to bank holding companies compared to the current general risk-based capital rules. The rules include provisions affecting the calculation of regulatory capital and risk-weighting of assets, and establish new minimum risk-based capital and leverage ratios and a capital conservation buffer and countercyclical capital buffer. The FRB has also adopted liquidity coverage ratio and supplemental leverage ratio requirements for a subset of large banking organizations. The final rules eliminate the use of external credit ratings to determine risk-weights for regulatory capital purposes. Although Designated Financial Companies are not directly subject to the final rules, and the final rules exempt savings and loan holding companies that are predominantly engaged in insurance activities, the final rules may serve as a floor for Designated Financial Companies such as Prudential under the Collins Amendment and could provide the basis for the enhanced prudential standards ultimately to be applied by the FRB to Prudential Financial. We cannot predict what capital regulations the FRB will promulgate with respect to Designated Financial Companies or how or when such capital regulations will be applied to Prudential Financial.

In 2014, the Company participated in the FRB s quantitative impact study to evaluate the potential effects of a revised regulatory capital framework on Designated Financial Companies and savings and loan holding companies that are substantially engaged in insurance underwriting activity.

Congress has amended the Collins Amendment to clarify that, in establishing minimum leverage capital requirements and minimum risk-based capital requirements for insurance holding companies the FRB supervises (including Designated Financial Companies such as Prudential), the FRB is permitted to exclude certain insurance activities from such requirements. We cannot predict whether or how the FRB will use this authority in developing capital requirements for insurance groups it supervises.

As a Designated Financial Company, we are 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. We will be required 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 final rules published by the FRB in October 2012, 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 final rules require baseline, adverse and severely adverse scenarios to be used. The FRB will provide the scenarios to be used in the internal annual stress tests, although companies will be required to develop their own scenarios for the internal semi-annual stress tests. 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. We cannot predict the manner in which the stress tests will ultimately

be designed, conducted and disclosed with respect to Prudential Financial or whether the results of such stress tests will cause us to alter our business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors of our financial strength.

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 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. Dodd-Frank further requires that a Designated Financial Company determined by the Council to pose a grave threat to financial stability of the U.S. maintain a debt-to-equity ratio of no more than 15-to-1 until the limitation is no longer necessary.

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.

We are required as a Designated Financial Company to submit to the FRB and Federal Deposit Insurance Corporation (FDIC), and periodically update in the event of material events, an annual plan for rapid and orderly resolution in the event of severe financial distress. We submitted our first resolution plan on June 30, 2014, and our next resolution plan is required to be submitted by December 31, 2015. In 2015, 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.

As a Designated Financial Company, Prudential Financial must seek pre-approval from the FRB for acquisition of 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. We cannot predict whether any such recommendations will be made or their effect on our business, results of operations, cash flows or financial condition.

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.

Other Regulation under Dodd-Frank

Other key aspects of Dodd-Frank s impact on us include:

Dodd-Frank creates a new framework for regulation of the over-the-counter (OTC) derivatives markets which could impact various activities of Prudential Global Funding LLC (PGF), Prudential Financial and our insurance subsidiaries, which use derivatives for various purposes (including hedging interest rate, foreign currency and equity market exposures). Dodd-Frank generally requires swaps, subject to a determination by the Commodity Futures Trading Commission (CFTC) or SEC as to which swaps are covered, entered into by all counterparties except non-financial end users to be executed through a centralized exchange or regulated facility and to be cleared through a regulated clearinghouse. The CFTC has made a determination that certain categories of swaps, including certain types of interest rate swaps, will be subject to the mandatory clearing requirement; it is anticipated that other categories of swaps will become subject to this requirement in the future. In April, 2013, the CFTC adopted a rule to exempt certain affiliated entities within a corporate group from the foregoing clearing requirements. This exemption is available for swaps entered into between PGF, Prudential Financial and our insurance subsidiaries, subject to certain conditions, including compliance with documentation and reporting requirements. The SEC and CFTC have issued regulations defining swaps and are required to determine whether and how stable value contracts should be

treated as swaps and, although we believe otherwise, various other products offered by our insurance subsidiaries might 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. In addition, final rules regarding margin requirements for OTC derivatives have not been adopted, and any margin rules applicable to the Company may be

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more onerous than the collateral posting requirements under its existing OTC derivatives contracts. We cannot predict the effect of further regulations on our hedging costs, our hedging strategy or implementation thereof or whether we will need or choose to increase and/or change the composition of the risks we do not hedge.

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 not having a 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. On December 12, 2013, FIO issued its report, as required under Dodd-Frank, on how to modernize and improve the system of insurance regulation in the United States. In its report, FIO advocated closer coordination between state insurance regulators and a harmonization of state insurance laws across a number of insurance regulatory issues and responsibilities and also made recommendations for direct federal involvement in certain areas of insurance regulation.

Title II of Dodd-Frank provides that a financial company may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the FDIC as receiver, upon a determination (with the approval of the FIO director if as is true with respect to Prudential Financial the largest United States subsidiary is an insurer) that the company is in default or in danger of default and presents a systemic risk to U.S. financial stability. Were Prudential Financial subject to such a proceeding, our U.S. insurance subsidiaries would remain subject to rehabilitation and liquidation proceedings under state law, although the FDIC has discretion and authority to initiate resolution of an insurer under state law if its state insurance regulator has not filed the appropriate judicial action within 60 days of a systemic risk determination. However, our non-insurance U.S. subsidiaries engaged in financial activities would be subject to any special orderly liquidation process so commenced.

Dodd-Frank includes various securities law reforms that may affect our business practices and the liabilities and/or exposures associated therewith. In January 2011, the SEC staff issued a study that recommends that the SEC adopt a uniform federal fiduciary standard of conduct for registered broker-dealers and investment advisers that provide retail investors personalized investment advice about securities which the SEC continues to consider.

International and Global Regulatory Initiatives

In addition to the adoption of Dodd-Frank in the United States, lawmakers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations. The G20, the FSB and related governmental 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 associated with responses to the financial crisis.

On July 18, 2013, the FSB identified Prudential Financial as a global systemically important insurer (G-SII). In its annual reassessment of G-SII designations, the FSB again identified Prudential Financial as a G-SII on November 6, 2014. U.S. financial regulators are thereby expected to enhance their regulation of Prudential Financial to achieve a number of regulatory objectives, including:

Enhanced group-wide supervision;

Enhanced capital standards, including basic capital requirements (BCR) applicable to all group activities and higher loss absorption capital standards (expected to begin to be implemented in 2019);

- Enhanced liquidity planning and management; and

- Development of a risk reduction plan and recovery and resolution plans.

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 our identification as a G-SII on the regulation of our businesses.

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At the direction of the FSB, the International Association of Insurance Supervisors (the IAIS) is developing a model framework (ComFrame) for the supervision of internationally active insurance groups (IAIGs) that contemplates group wide supervision across national boundaries. Prudential Financial qualifies as an IAIG. We have participated in field testing to assist the IAIS in its development of ComFrame, including global capital standards. In October 2013, the IAIS announced that it would develop a risk-based global insurance capital standard by 2016 applicable to IAIGs, with implementation scheduled to begin in 2019. In October 2014, the IAIS released preliminary elements of its risk-based global insurance capital standards, known as the Basic Capital Requirements , which were endorsed by the FSB and G20 in November 2014. In December 2014, the IAIS published a Consultation Document to obtain public comment on the initial proposed standard. G-SIIs will be required to report their BCR results beginning in 2015 on a confidential basis, depending on the directions of domestic group wide supervisors. The BCR will continue to be revised and refined by the IAIS once the confidential reporting period begins, and a final capital framework is not anticipated until 2019.

In addition, the IAIS seeks to promote the financial stability of IAIGs by endorsing: uniform standards for insurer corporate governance and enterprise risk management; group-wide supervision of IAIGs; a framework for group capital adequacy assessment that accounts for group-wide risks; additional regulatory and disclosure requirements for insurance groups; and the establishment of ongoing supervisory colleges. ComFrame also requires each IAIG to conduct a group-wide risk and solvency assessment to monitor and manage its overall solvency. At this time, we cannot predict what additional capital requirements, compliance costs or other burdens these requirements would impose on us, if adopted.

The lawmakers and regulatory authorities in a number of jurisdictions in which we do business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holding companies by the Financial Services Agency (FSA) in Japan. In addition, the prudential regulation of insurance and reinsurance companies across the European Economic Area (EEA) is due for significant change under the Solvency II Directive (Solvency II) which could come into force as early as January 2016. This new regime will effect 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 will impose, among other things, group level supervision mechanisms. The impact of the implementation of Solvency II on non-European insurance groups, like ourselves, that have established insurance undertakings within the EEA cannot be determined at this time.

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 and outside the U.S. The possibility of inconsistent and conflicting regulation of the Prudential Financial group of companies also exists as law makers and regulators in multiple jurisdictions simultaneously pursue these initiatives.

Other U.S. Federal Regulation

U.S. Tax Legislation

The American Taxpayer s Relief Act (the Act) was signed into law on January 2, 2013. The Act permanently extended the reduced Bush-era individual tax rates for certain taxpayers and permanently increased those rates for higher income taxpayers. Higher tax rates increase the benefits of tax deferral on the build-up of value of annuities and life insurance. The Act also made permanent the current $5 million (indexed for inflation) per person estate tax exemption and increased the top estate tax rate from 35% to 40%.

Notwithstanding the passage of the Act, there continues to be uncertainty regarding U.S. taxes, both for individuals and corporations. There continue to be discussions in Washington concerning the need to reform the tax code, primarily by lowering tax rates and broadening the base by reducing or eliminating certain tax expenditures. Reducing or eliminating certain expenditures could make our products less attractive to

customers. It is unclear whether or when Congress may take up overall tax reform and what would be the impact of reform on the Company and its products. However, even in the absence of overall tax reform, the large federal deficit increases the possibility that Congress will raise revenue by enacting legislation to increase the taxes paid by individuals and corporations. This can be accomplished by either raising rates or otherwise changing the tax rules.

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

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

Furthermore, the Administration s Fiscal Year 2016 Revenue Proposals also included items that would change the way U.S. multinationals are taxed, as well as a liability-based fee on financial services companies, including insurance companies, with consolidated assets in excess of $50 billion. If these types of provisions are enacted into law, they could increase the amount of taxes the Company pays.

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

ERISA

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

The U.S. Department of Labor (DOL) is expected to issue a proposed rule in early 2015 that could, if adopted, substantially expand the range of activities that would be considered to be fiduciary investment advice under ERISA. Depending on the breadth of the final rule, the investment-related information and support that our advisors and employees could provide to plan sponsors, participants, and IRA holders on a non-fiduciary basis could be substantially limited beyond what is allowed under current law. This could have a material impact on the level and type of services we can provide, as well as the nature and amount of compensation and fees that we and our advisors receive for investment-related services. The exact nature and scope of any new final rule is undeterminable at this time.

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.

Holding Company Regulation

Prudential Financial is 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.

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

Beginning in October 2013 several of our domestic and foreign insurance regulators, and beginning in 2014, the FRB, have participated in a 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.

In 2012, PB&T limited its operations to trust services and Prudential Financial deregistered as a savings and loan holding company subject, in that capacity, to the examination, enforcement and supervisory authority of the FRB. As a trust-only organization, PB&T does not have access to a Federal Reserve credit line, is not permitted to issue commercial loans or checking accounts and all or substantially all deposits, if any, must be trust funds received in a fiduciary capacity. PB&T is now regulated by the Office of the Comptroller of the Currency (OCC) as a federal savings association and Prudential Financial is subject to supervision by the OCC as to whether it serves as a source of strength to PB&T. We also provide trust services through Prudential Trust Company, a state-chartered trust company incorporated under the laws of the Commonwealth of

Pennsylvania.

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Federal and state banking laws generally provide that no person may acquire control of Prudential Financial, and gain indirect control of either PB&T or Prudential Trust Company, without prior regulatory approval. Generally, beneficial ownership of 10% or more of the voting securities of Prudential Financial would be presumed to constitute control.

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 New Jersey Department of Banking and Insurance. 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 2013, the New Jersey insurance regulator, along with the insurance regulators of Arizona, Connecticut, Indiana and Iowa, completed a coordinated risk focused financial examination for the five year period ended December 31, 2011 for all of our U.S. domestic insurance companies as part of the normal five year examination and found no material deficiencies.

Financial Regulation

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

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

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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 February 2014, the New York State Department of Financial Services (NY DFS) notified us that it did not agree with our calculation of statutory reserves (including the applicable credit for reinsurance) for New York financial reporting purposes in respect of certain variable annuity products. During the fourth quarter of 2014, we reached an agreement on reserving methodologies with the NY DFS for these variable annuity products and for certain life insurance products. As a result, certain of our New York licensed insurance subsidiaries will hold additional statutory reserves on a New York basis. As of December 31, 2014, our insurance subsidiaries held sufficient statutory surplus on a New York basis to satisfy these additional New York reserves, but such additional reserves will reduce 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, which would result in a further reduction of New York statutory surplus. 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.

The NAIC has developed a principles-based reserving approach for life insurance products. The timing and the effect of these changes are still uncertain since the changes have to be adopted by each state and the approach can be further modified prior to adoption.

Captive Reinsurance Companies. On December 16, 2014, the NAIC adopted a new actuarial guideline, Actuarial Guideline XLVIII Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (#830) (AG 48). AG 48 implements many of the recommendations set forth in the June 2014 report by Rector & Associates, Inc. (Rector Report) concerning certain transactions involving captive reinsurance companies. Specifically, AG 48 prescribes an actuarial method to determine the portion of the assets held to support reserves for certain term and universal life policies that must be a primary security , which is 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 security . The requirements in AG 48 became effective on January 1, 2015 and apply in respect of certain term and universal life insurance policies written from and after January 1, 2015 or written prior to January 1, 2015 but not included in a captive reinsurer financing arrangement as of December 31, 2014. The NAIC and state regulators also continue to consider additional changes based on the Rector Report.

We have used captive reinsurance subsidiaries to finance a portion of the statutory reserves for term and universal life policies that we consider to be non-economic. If AG 48 requires us to hold cash or rated securities in greater amounts than we currently hold to support economic reserves, we may need to allocate capital or assets to our captives differently, but only for business issued on or 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. We are continuing to review the application of AG 48, and as a result, we have not yet quantified the impact of such a reallocation. We are also currently evaluating the effect of AG 48 more generally on our use of captives and any future financing of statutory reserves for our term and universal life business.

In addition to the changes recommended by the Rector Report, the NAIC continues to consider other changes that would regulate more strictly captive reinsurance companies that assume business directly written in more than one state and apply accreditation standards to those captives that historically were applicable only to traditional insurers. The NAIC and state and federal regulators continue to study other uses of captive reinsurance companies, including for variable annuities, by the life insurance industry.

Solvency Modernization Initiative. State insurance regulators have focused attention on U.S. insurance solvency regulation pursuant to the NAIC s Solvency Modernization Initiative. The Solvency Modernization

Initiative focuses on the entire U.S. financial regulatory system and all aspects of financial regulation affecting insurance companies. Though broad in scope, the NAIC has stated that the Solvency Modernization Initiative will focus on: (1) capital requirements; (2) corporate governance and risk management; (3) group supervision; (4) statutory accounting and financial reporting; and (5) reinsurance. This initiative has resulted in the recent adoption of the NAIC Risk Management and Own Risk and Solvency Assessment (ORSA) model act which, following enactment at the state level, will require larger insurers to, at least annually beginning in 2015, assess the adequacy of its and its group s risk management and current and future solvency position. Of the states where our insurance subsidiaries are domiciled, only New Jersey and Connecticut have enacted this model act to date. The NAIC is also exploring group capital concepts that would be appropriate for U.S.-based internationally active insurance groups. We cannot predict the additional capital requirements or compliance costs these requirements may impose.

IRIS Tests. The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System (IRIS) to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. Generally, regulators will begin to investigate or monitor an insurance company if its ratios fall outside usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. Based on our most recent statutory filings (as of December 31, 2013), none of our U.S. insurance companies are subject to regulatory scrutiny based on these ratios.

Market Conduct Regulation

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

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which insurers doing business in the state are members and may be assessed by state insurance guaranty associations for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer s proportionate share of the business written by all member insurers in the state. For the years ended December 31, 2014, 2013 and 2012, we paid approximately $28.8 million, $66.1 million and $2.4 million, respectively, in assessments pursuant to state insurance guaranty association laws. Many states offer a reimbursement of such assessments in the form of credits against future years premium taxes. The 2013 assessments paid reflect the Executive Life of New York (ELNY) and the Executive Life Insurance Company insolvencies. In addition, in 2011, we agreed to make a voluntary contribution of $20 million to an insurance industry solvency fund, related to ELNY, which was subsequently paid in 2013. While we cannot predict the amount and timing of future assessments on our U.S. insurance companies under these laws, we have established estimated reserves for future assessments relating to insurance companies that are currently subject to insolvency proceedings.

Federal and State Securities Regulation Affecting Insurance Operations

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

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

Investment and Retirement Products and Asset Management Operations

Our investment products and services are subject to federal and state securities, fiduciary, including ERISA, and other laws and regulations. The SEC, FINRA, CFTC, state securities commissions, state banking and insurance departments and the United States Department of Labor are the principal U.S. regulators that regulate our asset management operations. For a discussion of Dodd-Frank s impact on our investment products and asset management operations, see Dodd-Frank Wall Street Reform and Consumer Protection Act above. In some cases our domestic U.S. investment operations are also subject to non-U.S. securities laws and regulations.

Some of the separate account, mutual fund and other pooled investment products offered by our businesses, in addition to being registered under the Securities Act, are registered as investment companies under the Investment Company Act of 1940, as amended, and the shares of certain of these entities are qualified for sale in some states and the District of Columbia. Separate account investment products are also subject to state insurance regulation as described above. We also have several subsidiaries that are registered as broker-dealers under the Securities Exchange Act of 1934 (the Exchange Act), as amended, and are subject to federal and state regulation. In addition, we have subsidiaries that are investment advisers registered under the Investment Advisers Act of 1940, as amended. Our Prudential Agents 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.

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Privacy Regulation

We are subject to federal and state laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify customers and other individuals about their policies and practices relating to the collection and disclosure of health-related and customer information. State laws regulate use and disclosure of social security numbers. Federal and state laws require notice to affected individuals, law enforcement, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. Federal regulations require financial institutions and creditors to implement effective programs to detect, prevent, and mitigate identity theft. Federal and state laws and regulations regulate the ability of financial institutions to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers. Federal and state laws and regulations regulate the permissible uses of certain personal information, including customer information and consumer report information. Federal and state legislative and regulatory bodies may be expected to consider additional or more detailed laws and regulations regarding these subjects and the privacy and security of personal information. We are also subject to privacy laws, regulation, and directives that require our business units in countries outside the U.S. to protect the security and confidentiality of employee and customer personal information. In addition, we must comply with international privacy laws, regulations, and directives concerning the cross border transfer of employee and customer information. Federal and state financial regulators continue to focus on cybersecurity and have expressed an intent to increase emphasis in this area in their examinations of regulated entities. The Company reviews and revises its information security policies, procedures and standards accordingly. See Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management Risk Exposure and Monitoring Operational Risk .

Environmental Considerations

Federal, state and local environmental laws and regulations apply to our ownership and operation of real property. Inherent in owning and operating real property are the risks of hidden environmental liabilities and the costs of any required clean-up. Under the laws of certain states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of clean-up, which could adversely affect our commercial mortgage lending business. In several states, this lien has priority over the lien of an existing mortgage against such property. In addition, in some states and under the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) we may be liable, in certain circumstances, as an owner or operator, for costs of cleaning-up releases or threatened releases of hazardous substances at a property mortgaged to us. We also risk environmental liability when we foreclose on a property mortgaged to us, although Federal legislation provides for a safe harbor from CERCLA liability for secured lenders that foreclose and sell the mortgaged real estate, provided that certain requirements are met; however, there are circumstances in which actions taken could still expose us to CERCLA liability. Application of various other federal and state environmental laws could also result in the imposition of liability on us for costs associated with environmental hazards.

We routinely conduct environmental assessments prior to taking title to real estate, whether through acquisition for investment, or through foreclosure on real estate collateralizing mortgages that we hold. Although unexpected environmental liabilities can always arise, we seek to minimize this risk by undertaking these environmental assessments and complying with our internal procedures, and as a result, we believe that any costs associated with compliance with environmental laws and regulations or any clean-up of properties would not have a material adverse effect on our results of operations.

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. Existing or future laws or regulations may become more restrictive or otherwise adversely affect our operations as regulators seek to protect their financial systems from perceived systemic risk. Solvency regulatory approaches developed in Europe are being considered or adopted in jurisdictions such as Japan and Mexico. It is likely that the financial market dislocations will lead to changes in existing laws and regulations and regulatory frameworks, affecting our international business. In some instances, such jurisdictions may also impose different, conflicting or more rigorous laws and requirements, including regulations governing privacy, consumer protection, employee protection, corporate governance and capital adequacy. Changes such as these can increase compliance costs and potential regulatory exposure.

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

Our international insurance operations are principally supervised by regulatory authorities in the jurisdictions in which they operate, including the Japanese Ministry of Finance and the Financial Services Agency (FSA), the insurance 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 in certain jurisdictions are required to be disclosed to the public. Insurers that have less solvency margin than the regulators require are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy.

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

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.

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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 United Kingdom, Hong Kong, Mexico, India, Germany and Singapore, and participate in investment-related joint ventures in Brazil, Italy and China. These businesses may provide investment-related products such as investment management products and services, mutual funds and separately managed accounts. The regulatory authorities for these businesses typically oversee such issues as company licensing, the licensing of investment product sales staff, sales practices, solvency and capital adequacy, mutual fund product approvals and related disclosures, 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 United Kingdom (U.K.), are also subject to the U.K. s Anti-Bribery Law, which governs interactions with both governmental and private commercial entities.

Certain of our international insurance operations, including those in Japan, may be subject to assessments, generally based on their proportionate share of business written in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants. As we cannot predict the timing of future assessments, they may materially affect the results of operations of our international insurance operations in particular quarterly or annual periods. Under the Japanese insurance guaranty law, substantially similar to such laws in the U.S., 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, 2014, 2013, and 2012, we paid approximately $31 million, $31 million, and $28 million, respectively, based on fixed currency exchange rates, in assessments pursuant to Japanese insurance guaranty association laws.

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

In 2013 and 2014 the FSA announced several amendments to its Comprehensive Guidelines for Supervision of Insurance Business Operators and Inspection Manual for Insurance Companies addressing enterprise risk management readiness and own risk and solvency assessments. During the same period the FSA conducted several interviews with representatives of Japanese insurance companies (including foreign capital companies) in order to assess the current risk management practices. The FSA has periodically released the results of these interviews and intends to continue to encourage insurers to develop risk management systems which are in line with the international insurance supervisory framework, including the Insurance Core Principles (ICP) dealing with these subjects adopted by the IAIS in October 2011.

In 2013, the FSA indicated its intention to develop a new comprehensive regime for the resolution of financial institutions, including life insurance companies. The enabling legislation for the establishment of the regime was enacted in the fall of 2013; however, proposed regulations to effectuate these changes have not yet been released.

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. There is a proposal to further reduce the corporate rate for tax years beginning on or after April 1, 2015. The Japanese consumption tax rate increased on April 1, 2014 from 5% to 8%. The consumption tax rate is scheduled to increase to 10% in October 2015; however, the Japanese government announced that the increase will likely be delayed until April 1, 2017. Insurance commissions paid to our Life Planners and Life Consultants are subject to consumption tax for individuals exceeding certain earnings thresholds; however, the tax is not charged on employee compensation (other than commissions) or insurance premiums. The consumption tax increase has led to increased costs for insurers.

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

Employees

As of December 31, 2014, we had 48,331 employees and sales associates, including 28,311 located outside of the U.S. We believe our relations with our employees and sales associates are satisfactory.

Available Information

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

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

ITEM 1A. RISK FACTORS

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

Risks Relating to Economic, Market and Political Conditions

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

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

Even under relatively favorable market conditions, our insurance, annuity and investment products, as well as our investment returns and our access to and cost of financing, are sensitive to fixed income, equity, real estate

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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.

Positions that we are required to mark to market may cause, and have caused, volatility in reported results of operations due to market fluctuations.

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 will 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, and in certain cases under U.S. GAAP such period to period changes in the value of investments are not recognized in our results of operations or consolidated statements of financial position.

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.

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, including a failure to increase the federal debt ceiling), 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 and, to a lesser extent, the Australian 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, we have to reinvest in lower-yielding instruments, potentially reducing net investment income. Since many of our policies and contracts have guaranteed minimum interest crediting rates or limit the resetting of interest rates, the spreads could decrease and potentially become negative, or go further negative. When interest rates rise, we may not be able to replace the assets in our general account as quickly with the higher-yielding assets needed to fund the higher crediting rates necessary to keep these products and contracts competitive. In addition, rising interest rates could cause a decline in the market value of fixed income assets the Company manages which in turn could result in lower asset management fees earned.

Changes in interest rates can also result in potential losses in our investment activities in which we borrow funds and purchase investments to earn additional spread income on the borrowed funds.

When interest rates rise, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns, requiring us to sell investment assets potentially resulting in realized investment losses, or requiring us to accelerate the amortization of deferred acquisition costs (DAC), deferred sales inducements (DSI) or value of business acquired (VOBA). In addition, increasing interest rates could cause capital strain due to lower solvency margin levels of our Japanese insurance subsidiaries because the carrying value of

bonds classified as available-for-sale would decline while the carrying value of liabilities would generally remain unchanged. Also, an increase in interest rates accompanied by unexpected extensions of certain lower yielding investments could reduce our profitability.

When interest rates rise, hedging activities associated with some of our products could subject us to increased collateral posting requirements.

A decline in interest rates accompanied by unexpected prepayments of certain investments could require us to reinvest at lower rates and reduce our profitability.

A decline in interest rates could require us to contribute capital to subsidiaries to support our annuities business.

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 the relationship between long-term and short-term interest rates could adversely affect the profitability of some of our products.

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.

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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 general availability of credit, the overall availability of credit to the financial services industry, 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 Prudential Financial s and its subsidiaries 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. 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. 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.

Our Japanese insurance operations offer products denominated in non-yen currencies, with the liabilities for these products supported by investments denominated in the corresponding currencies. While the impact from foreign currency exchange rate movements on these non-yen denominated assets and liabilities are economically matched, the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements may differ, resulting in volatility in our net income under U.S. GAAP.

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 adverse market, economic and financial conditions. For example, our investments denominated in euro could be adversely affected by the unfavorable economic conditions in Europe, including due to potential changes in the euro or to the structure or membership of the European Monetary Union.

Risks Relating to Estimates, Assumptions and Valuations

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

We set prices for many of our insurance and annuity products based upon expected claims and payment patterns, using assumptions for mortality rates (the likelihood of death or the likelihood of survival), morbidity rates (the likelihood of sickness or disability), and improvement trends in mortality and morbidity of our policyholders. In addition to the potential effect of natural or man-made disasters, significant changes in mortality or morbidity could emerge gradually over time, due to changes in the natural environment, the health habits of the insured population, treatment patterns and technologies for disease or disability, the economic environment, or other factors. Pricing of our insurance and deferred annuity products are also based in part upon expected persistency of these products, which is the probability that a policy or contract will remain in force from one period to the next. Persistency within our annuities business may be significantly impacted by the value of guaranteed minimum benefits contained in many of our variable annuity products being higher than current account values in light of poor equity market performance or extended periods of low interest rates as well as other factors. Persistency could be adversely affected generally by developments affecting client perception of us, including perceptions arising from adverse publicity. Many of our products also provide our customers with wide flexibility with respect to the amount and timing of premium deposits and the amount and timing of withdrawals from the policy s value. Results may vary based on differences between actual and expected premium deposits and withdrawals for these products, especially if these product features are relatively new to the marketplace. The pricing of certain of our variable annuity products that contain certain living benefit guarantees is also based on assumptions about utilization rates, or the percentage of contracts that will utilize the benefit during the contract duration, including the timing of the first lifetime income withdrawal. Results may vary based on differences between actual and expected benefit utilization. The development of a secondary market for life insurance, including life settlements or viaticals and investor owned life insurance, and third-party investor strategies in the annuities business, could adversely affect the profitability of existing business and our pricing assumptions for new business.

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

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

We establish reserves in accordance with U.S. GAAP for future policyholder benefits and expenses. While these reserves generally exceed our best estimate of the liability for future benefits and expenses, if we conclude based on updated assumptions that our reserves, together with future premiums, are insufficient to cover future policy benefits and expenses, including unamortized DAC, DSI or VOBA, we would need to accelerate the amortization of these DAC, DSI or VOBA balances and then increase our reserves and incur income statement charges, which would adversely affect our results of operations and financial condition. The determination of our best estimate of the liability is based on data and models that include many assumptions and projections which are inherently uncertain and involve the exercise of significant judgment, including the levels and timing of receipt or payment of premiums, benefits, expenses, interest credits and investment results (including equity market returns), which depend on actual retirement, mortality, morbidity and persistency experience. We cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits and expenses or whether the assets supporting our policy liabilities, together with future premiums, will be

sufficient for payment of benefits and expenses. If we conclude that our reserves, together with future premiums, are insufficient to cover future policy benefits and expenses, we may seek to increase premiums where we are able to do so.

Updated assumptions may also require us to increase U.S. GAAP reserves for the guarantees in certain nontraditional 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 returns on capital associated with these products. Our ability to efficiently manage capital and economic reserve levels may be impacted, thereby impacting profitability and returns on capital.

We may be required to accelerate the amortization of DAC, DSI or VOBA, or recognize impairment in the value of our goodwill or 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 annuity 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 represents the present value of future profits embedded in acquired insurance, annuity and investment-type contracts and is amortized over the expected lives of the acquired contracts. 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.

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Goodwill is assessed annually for potential impairment, or more frequently if conditions warrant, by comparing the carrying value (equity attributed to a business to support its risk) of a business to its estimated fair value at that date. As of December 31, 2014, we had goodwill balances related to certain of our businesses. Market declines or other events impacting the fair value of these businesses, or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income.

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

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

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

negatively affecting our profitability, liquidity and/or capital. In addition, we consider our own risk of non-performance in determining the fair value of certain of our liabilities, including insurance liabilities that are classified as embedded derivatives under U.S. GAAP. Changes in our credit or financial strength ratings may therefore affect the fair value of our liabilities.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could result in additional collateral requirements or other required payments under certain agreements, including derivative agreements, which are eligible to be satisfied in cash or by posting securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels at December 31, 2014 (relating to financial strength ratings in certain cases and credit ratings in other cases) would result in estimated collateral posting requirements or payments under such agreements of approximately $9 million. In addition, a ratings downgrade by A.M. Best to A- for our domestic life insurance companies would require Prudential Insurance to post a letter of credit in the amount of approximately $1.4 billion, based on the level of statutory reserves related to the variable annuity business acquired from Allstate.

Prudential Insurance has been a member of the FHLBNY since June 2008. Membership allows Prudential Insurance access to FHLBNY s financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements that can be used as an alternative source of liquidity. Under FHLBNY guidelines, if Prudential Insurance s financial strength ratings decline below A/A2/A Stable by S&P, Moody s and Fitch, respectively, and the FHLBNY does not receive written assurances from the New Jersey Department of Banking and Insurance regarding Prudential Insurance s solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Although Prudential Insurance s ratings are currently at or above the required minimum levels, there can be no assurance that the ratings will remain at these levels in the future.

We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without advance notice by any rating agency.

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.

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. Amounts that we expect to collect under current and future contracts, including, but not limited to reinsurance contracts, are subject to counterparty risk. Our obligations under our products are not changed by our hedging activities 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.

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.

We also use reinsurance as part of our capital management strategy. Ratings downgrades or financial difficulties of reinsurers may require us to utilize additional capital with respect to the impacted businesses.

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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 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 if our hedging or risk management strategies prove ineffective or insufficient.

Certain of our products, particularly our variable annuity products, include guarantees of minimum surrender values or income streams for stated periods or for life, which may be in excess of account values. Downturns in equity markets, increased equity volatility, or (as discussed above) reduced interest rates could result in an increase in the valuation of liabilities associated with such guarantees, resulting in increases in reserves and reductions in net income. We use a variety of hedging and risk management strategies, including product features, to mitigate these risks in part. These strategies may, however, not be fully effective. We may also choose not to fully hedge these risks. Hedging instruments may not effectively offset the costs of guarantees or may otherwise be insufficient in relation to our obligations. Hedging instruments also may not change in value correspondingly with associated liabilities due to equity market or interest rate conditions or other reasons. We sometimes choose to hedge these risks on a basis that does not correspond to their anticipated or actual impact upon our results of operations or financial position under U.S. GAAP. Changes from period to period in the valuation of these policy benefits, and in the amount of our obligations effectively hedged, will result in volatility in our results of operations and financial position under U.S. GAAP. 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.

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 that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that this level of reserves is excessive, and we have implemented reinsurance and capital management actions to mitigate the impact of Regulation XXX and Guideline AXXX on our term and universal life insurance business. As we continue to underwrite term and universal life business, we expect to have borrowing needs to finance statutory reserves required under Regulation XXX and Guideline AXXX. However, if we are unsuccessful in obtaining additional financing as a result of market conditions, regulatory actions or otherwise, this could require us to increase prices and or/reduce our sales of term or universal life products and/or have a negative impact on our capital position.

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

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

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

Changes to the Social Security Disability Insurance Program could have a significant impact on the group disability market.

Uncertainty around the future of the Social Security Disability Insurance (SSDI) program could have a substantial impact on the group disability market. Without changes to the federal funding of the SSDI program, the program is projected by its board to become insolvent in 2016. Since 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.

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Regulatory and Legal Risks

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

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

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

Prudential Financial is also subject to the rules and regulations of the SEC and the NYSE relating to public reporting and disclosure, securities trading, accounting and financial reporting, and corporate governance matters. The Sarbanes-Oxley Act of 2002 and rules and regulations adopted in furtherance of that Act substantially increased the requirements in these and other areas for public companies such as Prudential Financial. Our internal controls over financial reporting may have gaps or other deficiencies and there is no assurance that significant deficiencies or material weaknesses in internal controls may not occur in the future. Any such gaps or deficiencies may require significant resources to remediate and may also expose the Company to litigation, regulatory fines or penalties or other losses.

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.

Congress from time to time enacts 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.

Insurance regulators continue to develop a principles-based reserving approach for life insurance products. The timing and the effect of these changes are uncertain.

Most of our U.S. operating insurance companies are licensed in New York, but none are domiciled in New York. In February 2014, the NY DFS notified us that it did not agree with our calculation of statutory reserves (including the applicable credit for reinsurance) for New York financial reporting purposes in respect of certain variable annuity products. During the fourth quarter of 2014, we reached an agreement with the NY DFS on reserving methodologies for New York financial reporting purposes in respect of certain variable annuity products and for certain life insurance products that will require certain of our New York licensed insurance subsidiaries to hold additional statutory reserves on a New York basis. While these subsidiaries held sufficient statutory surplus on a New York basis as of December 31, 2014 to satisfy these additional reserves, the agreed reserve methodologies may require us to hold additional New York statutory reserves in the future. If we are required to establish material additional reserves on a New York statutory accounting basis or post material amounts of additional collateral with respect to annuity or insurance products, our ability to deploy capital held within our U.S. domestic insurance subsidiaries for other purposes could be affected.

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In addition, the NAIC, the NY DFS and other regulators have increased their focus on life insurers use of captive reinsurance companies, including for variable annuities, and the NAIC adopted a new actuarial guideline (AG 48) that applies to certain life insurance captive reinsurance transactions. The adoption of AG 48 and other changes to applicable insurance laws may adversely affect our ability to write certain products and efficiently manage their associated risks and we may need to increase prices on 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 our use of captive reinsurance companies.

The failure of Prudential Insurance and our other domestic insurance subsidiaries to meet applicable Risk-Based Capital (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.

Currently, there are several proposals to amend state insurance holding company laws to increase the scope of the regulation of insurance holding companies (such as Prudential Financial). These proposals include imposing standards for insurer corporate governance, enterprise risk management, group-wide supervision of insurance holding companies, adjustments to risk-based capital calculations to account for group-wide risks, and additional regulatory and disclosure requirements for insurance holding companies. In addition, state insurance regulators have focused attention on U.S. insurance solvency regulation pursuant to the NAIC s Solvency Modernization Initiative , including regulatory review of companies risk management practices and analyses. This initiative has resulted in the recent adoption of the NAIC Risk Management and Own Risk and Solvency Assessment model act which, following enactment at the state level, will require larger insurers, beginning in 2015, to assess the adequacy of their and their group s risk management and current and future solvency position. At this time, we cannot predict with any degree of certainty what additional capital requirements, compliance costs or other burdens these requirements may impose on Prudential Financial.

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.

On September 19, 2013, the Financial Stability Oversight Council (the Council) made a final determination that Prudential Financial should be subject to stricter prudential regulatory standards and supervision by the FRB as a Designated Financial Company pursuant to Dodd-Frank, thereby subjecting us to substantial federal regulation, much of it pursuant to regulations not yet promulgated. Dodd-Frank directs existing and newly-created government agencies and bodies to promulgate regulations implementing the law, a process that is underway and expected to continue over the next few years. We cannot predict with any certainty the requirements of the regulations recently or not yet adopted or how Dodd-Frank and such regulations will affect the financial markets generally, impact our business, credit or financial strength ratings, results of

operations, cash flows or financial condition or advise or require us to hold or raise additional capital or liquid assets. Key aspects of Dodd-Frank s impact on us include:

As a Designated Financial Company, Prudential Financial is now subject to supervision by the FRB and examination by the Federal Reserve Bank of Boston and to stricter prudential standards, which include or

will include requirements and limitations (some of which are the subject of ongoing rule-making) relating to RBC, leverage, liquidity, risk management and credit concentration, and a requirement to prepare and submit an annual plan for rapid and orderly resolution in the event of severe financial distress. If the FRB and the FDIC jointly determine that our plan is deficient, they may impose more stringent capital, leverage, or liquidity requirements, or restrictions on our growth, activities, or operations. Our 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 to facilitate the Company s orderly resolution. In addition, failure to meet defined measures of financial condition could result in substantial restrictions on our business and capital distributions. We will now also be subject to stress tests to be promulgated by the FRB which could cause us to alter our business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors of our financial strength. We cannot predict the requirements of the regulations not yet adopted or how the FRB will apply these prudential standards to us as a Designated Financial Company. 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 creates a new framework for regulation of the over-the-counter (OTC) derivatives markets which could impact various activities of PGF, Prudential Financial and our insurance subsidiaries, which use derivatives for various purposes (including hedging interest rate, foreign currency and equity market exposures). While many of the regulations required to be promulgated under Dodd-Frank 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, final rules regarding margin requirements for OTC derivatives have not been adopted, and any margin rules applicable to the Company may be more onerous than the collateral posting requirements under our existing OTC derivatives contracts.

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.

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.

On July 18, 2013, 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 (including BCR and higher loss absorption capital standards), enhanced liquidity planning and management, and development of a risk reduction plan and recovery and resolution plans. In October 2014, the IAIS concluded the

development of its initial BCR framework. Depending on the directions of domestic group wide supervisors, G-SIIs such as Prudential Financial will be required to report their BCR results beginning in 2015 on a confidential basis. The BCR will continue to be revised and refined by the IAIS once the confidential reporting

period begins, and a final capital framework for G-SIIs is anticipated by 2019. Policy measures applicable to G-SIIs would need to be implemented by legislation or regulation in each applicable jurisdiction. We cannot predict the outcome of our identification as a G-SII on the regulation of our businesses.

At the direction of the FSB, the IAIS is developing ComFrame for the supervision of IAIGs that contemplates group wide supervision across national boundaries, including uniform standards for insurer corporate governance and enterprise risk management, a framework for group capital adequacy assessment that accounts for group-wide risks, and the establishment of ongoing supervisory colleges. Prudential Financial qualifies as an IAIG. In October 2013, the IAIS announced that it expects to develop a risk-based global insurance capital standard applicable to IAIGs with implementation scheduled to begin in 2019, and in December 2014 it published a proposed standard for public comment. At this time, we cannot predict what additional capital requirements, compliance costs or other burdens these requirements would impose on us, if adopted.

The lawmakers and regulatory authorities in a number of jurisdictions in which we do business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holdings companies by the FSA in Japan and proposals governing executive compensation by the financial regulators in Germany (BaFIN) and the United Kingdom. In addition, the prudential regulation of insurance and reinsurance companies across the EEA is due for significant change under Solvency II, which could come into force as early as January 2016. This new regime will effect a full revision of the insurance industry s solvency framework and prudential regime and may have significant implications for non-European insurance groups, like ourselves, that have established insurance undertakings within the EEA. There can be no assurance that Solvency II will not, at a minimum, result in increased supervisory, capital and disclosure burdens on Prudential s EEA operations with potential broader collateral consequences to Prudential Financial.

We cannot predict with any certainty the effect these initiatives may have on the financial markets or on our business, results of operations, cash flows and financial condition.

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

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

Accounting standards are continuously evolving and subject to change. For example, the FASB and International Accounting Standards Board (IASB) have ongoing projects to revise accounting standards for insurance contracts. While the final resolution of changes to U.S. GAAP and International Financial Reporting Standards pursuant to these projects is unclear, changes to the manner in which we account for insurance products, or other changes in accounting standards, could have a material effect on our reported results of operations and financial condition. Further, changes in accounting standards may impose special demands on issuers in areas such as corporate governance, internal controls and disclosure, and may result in substantial conversion costs to implement.

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

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

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

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

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

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

Furthermore, the Administration s Fiscal Year 2016 Revenue Proposals also include items that would change the way U.S. multinational corporations are taxed, as well as a liability-based fee on financial services companies, including insurance companies, with consolidated assets in excess of $50 billion. If these types of provisions are enacted into law, they could increase the amount of taxes the Company pays.

The products we sell have different tax characteristics, in some cases generating tax deductions for the Company. 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 principles based approaches 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 may ultimately result in additional restrictions on transfers of funds to Prudential Financial, either to satisfy enhanced prudential standards, due to inadequate stress-test performance, or otherwise. These restrictions on Prudential Financial s subsidiaries may limit or prevent such subsidiaries from making dividend or other payments to Prudential Financial in an amount sufficient to fund Prudential Financial s obligations, shareholder dividends and share repurchases. From time to time, the NAIC and various state and foreign insurance regulators have considered, and may in the future consider, proposals to further limit dividend payments that an insurance company may make without regulatory approval.

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

We are, and in the future may be, subject to legal and regulatory actions in the ordinary course of our businesses, including in businesses that we have divested or placed in wind-down status. Some of these 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. Legal liability or adverse publicity in respect of these or future legal or regulatory actions could have an adverse affect on us or cause us reputational harm, which in turn could harm our business prospects.

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 the Note 23 to 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 depending, in part, upon the results of operations or cash flow for such period. 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 asset transfer or re-allocation strategies, and by our employment of complex investment, trading and hedging programs.

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

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

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.

We face risks arising from acquisitions, divestitures and restructurings, including client losses, surrenders and withdrawals, difficulties in 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, as well as difficulties in 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.

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Other Risks

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

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

There are, however, inherent limitations to risk management strategies because there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, the Company may suffer unexpected losses and could be materially adversely affected. As our businesses change and the markets in which we operate evolve, our risk management framework may not evolve at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. In times of market stress, unanticipated market movements or unanticipated claims experience resulting from adverse mortality or morbidity, the effectiveness of our risk management strategies may be limited, resulting in losses to the Company. In addition, under difficult or less liquid market conditions, our risk management strategies may not be effective because other market participants may be using the same or similar strategies to manage risk under the same challenging market conditions. In such circumstances, it may be difficult or more expensive for the Company 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 prevent us from taking or causing to be taken actions to protect or increase the value of those investments. In those jurisdictions where we are constrained by law from owning a majority interest in jointly owned operations, our remedies in the event of a breach by a joint venture partner may be limited (e.g., we may have no ability to exercise a call option).

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

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

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

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

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

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

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

A substantial portion of our revenues and income from continuing operations is derived from our operations outside the U.S., primarily Japan and Korea. 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.

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 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. Changes in laws and regulations in response to adverse market and economic conditions may result in us being classified differently than competitors for purposes of capital and other requirements, potentially affecting our ability to compete and the competitive landscape generally.

Competition for personnel in all of our businesses is intense, including for executive officers and management personnel, Prudential Agents, 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.

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

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 or Prudential Trust Company. 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

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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 20, 2015, were as follows:

Name	Age	Title	Other Public Directorships
John R. Strangfeld, Jr.	61	Chairman, Chief Executive Officer and President	None
Mark B. Grier	62	Vice Chairman	None
Susan L. Blount	57	Executive Vice President and General Counsel	None
Robert M. Falzon	55	Executive Vice President and Chief Financial Officer	None
Charles F. Lowrey	57	Executive Vice President and Chief Operating Officer, International Businesses	None
Stephen Pelletier	61	Executive Vice President and Chief Operating Officer, U.S. Businesses	None
Barbara G. Koster	60	Senior Vice President and Chief Information Officer	None
Richard F. Lambert	58	Senior Vice President and Chief Actuary	None
Nicholas C. Silitch	53	Senior Vice President and Chief Risk Officer	None
Scott G. Sleyster	55	Senior Vice President and Chief Investment Officer	None
Sharon C. Taylor	60	Senior Vice President, Human Resources	New Jersey Resources

Biographical information about Prudential Financial executive officers is as follows:

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

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

Susan L. Blount was elected Executive Vice President in June 2013 and General Counsel of Prudential Financial and Prudential Insurance in May 2005. Ms. Blount has been with Prudential since 1985. She has served in various supervisory positions since 2002, including Vice President and Chief Investment Counsel and Vice President and Enterprise Finance Counsel. She served as Vice President, Secretary and Associate General Counsel from 2000 to 2002 and Vice President and Secretary from 1995 to 2000.

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.

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.

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.

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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 Asset Management segment, which are discussed below, as of December 31, 2014, we own eight and lease 13 other principal properties throughout the U.S., some of which are used for home office functions. In addition, we are currently in the process of developing a new office building located in Newark, New Jersey, which will be used for home office functions. Our domestic operations also lease approximately 183 other locations throughout the U.S.

For our International Insurance segment, as of December 31, 2014, we own six 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 120 and lease approximately 540 other properties, primarily field offices, located throughout these same countries. For our Asset Management segment, which includes our international investment operations, as of December 31, 2014, we lease three home offices located in Japan, Taiwan and India. We also lease 14 international principal properties located in Mexico, Japan, Hong Kong, Singapore, Korea, Germany, Australia, France, Portugal, Luxembourg and the United Kingdom, in addition to approximately 20 other branch and field offices within Europe and Asia.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

General

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

	High	Low	Dividends
2014:			
Fourth Quarter	$ 91.67	$ 77.86	$ 0.58
Third Quarter	$ 93.16	$ 85.75	$ 0.53
Second Quarter	$ 91.10	$ 77.61	$ 0.53
First Quarter	$ 91.23	$ 80.45	$ 0.53
2013:			
Fourth Quarter	$ 92.43	$ 75.99	$ 0.53
Third Quarter	$ 82.62	$ 73.30	$ 0.40
Second Quarter	$ 73.03	$ 54.91	$ 0.40
First Quarter	$ 60.41	$ 54.64	$ 0.40

On January 31, 2015, there were 1,509,112 registered holders of record for the Common Stock and 454 million shares outstanding.

There is no established public trading market for the Class B Stock. For the years ended December 31, 2014 and 2013, Prudential Financial paid dividends totaling $9.625 per share of Class B Stock. All shares of Class B Stock previously outstanding were repurchased and cancelled on January 2, 2015. See Business Elimination of the Separation of the Businesses and Note 25 to the Consolidated Financial Statements for additional information. Prior to the repurchase and cancellation, there were three holders of record for the Class B Stock and 2 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 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.

See Item 12 for information about our equity compensation plans.

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Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company during the three months ended December 31, 2014 of its Common Stock.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Program(2)	Approximate Dollar Value of Shares that May Yet be Purchased under the Program(2)
October 1, 2014 through October 31, 2014	996,840	$ 83.82	994,167	
November 1, 2014 through November 30, 2014	1,009,500	$ 85.42	974,900	
December 1, 2014 through December 31, 2014	943,647	$ 88.49	941,625	
Total	2,949,987	$ 85.86	2,910,692	$ 500,000,000

(1) Includes shares of Common Stock withheld from participants for income tax withholding purposes whose shares of restricted stock units vested during the period. Such restricted stock units were originally issued to participants pursuant to the Prudential Financial, Inc. Omnibus Incentive Plan that was adopted by the Company s Board of Directors in March 2003 (as subsequently amended and restated).

(2) In June 2014, the Board authorized the Company to repurchase up to $1.0 billion of its outstanding Common Stock during the twelve month period from July 1, 2014 through June 30, 2015.

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated income statement data for the years ended December 31, 2014, 2013 and 2012, and the selected consolidated balance sheet data as of December 31, 2014 and 2013, from our Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 2011 and 2010, and the selected consolidated balance sheet data as of December 31, 2012, 2011 and 2010, from consolidated financial statements not included herein.

On January 2, 2014, the Company completed the acquisition of UniAsia Life Assurance Berhad, an established life insurance company in Malaysia, through the formation of a joint venture with Bank Simpanan Nasional (BSN), a bank owned by the Malaysian government. The joint venture paid cash consideration of $158 million, 70% of which was provided by Prudential Insurance and 30% of which was provided by BSN. This acquisition is part of the Company s strategic initiative to further expand its business in Southeast Asian markets. Subsequent to the acquisition, the Company renamed the acquired company Gibraltar BSN Life Berhad.

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

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

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

Our Gibraltar Life operations use a November 30 fiscal year end. Consolidated balance sheet data as of December 31, 2014, 2013, 2012, 2011 and 2010, includes Gibraltar Life assets and liabilities as of November 30. Consolidated income statement data for 2014, 2013, 2012, 2011 and 2010, includes Gibraltar Life results for the twelve months ended November 30, 2014, 2013, 2012, 2011 and 2010, respectively.

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

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$ 29,293	$ 26,237	$ 65,354	$ 24,301	$ 18,238
Policy charges and fee income	6,179	5,415	4,489	3,924	3,323
Net investment income	15,256	14,729	13,661	13,124	11,865
Asset management and service fees	3,719	3,485	3,053	2,897	2,442
Other income	(1,978)	(3,199)	(269)	2,008	1,305
Realized investment gains (losses), net	1,636	(5,206)	(1,441)	2,831	1,050
Total revenues	54,105	41,461	84,847	49,085	38,223
Benefits and expenses:					
Policyholders benefits	31,587	26,733	65,131	23,614	18,285
Interest credited to policyholders account balances	4,263	3,111	4,234	4,484	4,209
Dividends to policyholders	2,716	2,050	2,176	2,723	2,189
Amortization of deferred policy acquisition costs	1,973	240	1,504	2,695	1,085
General and administrative expenses	11,807	11,011	11,094	10,605	8,309
Total benefits and expenses	52,346	43,145	84,139	44,121	34,077
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	1,759	(1,684)	708	4,964	4,146
Income tax expense (benefit)	349	(1,058)	213	1,515	1,266
Income (loss) from continuing operations before equity in earnings of operating joint ventures	1,410	(626)	495	3,449	2,880
Equity in earnings of operating joint ventures, net of taxes	16	59	60	182	82
Income (loss) from continuing operations	1,426	(567)	555	3,631	2,962
Income (loss) from discontinued operations, net of taxes	12	7	15	35	33
Net income (loss)	1,438	(560)	570	3,666	2,995
Less: Income (loss) attributable to noncontrolling interests	57	107	50	34	19
Net Income (loss) attributable to Prudential Financial, Inc.	$ 1,381	$ (667)	$ 520	$ 3,632	$ 2,976
Basic earnings per share Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 3.23	$ (1.57)	$ 1.02	$ 7.14	$ 5.25
Income (loss) from discontinued operations, net of taxes	0.02	0.02	0.04	0.07	0.07
Net income (loss) attributable to Prudential Financial, Inc.	$ 3.25	$ (1.55)	$ 1.06	$ 7.21	$ 5.32
Diluted earnings per share Common Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 3.20	$ (1.57)	$ 1.01	$ 7.05	$ 5.20
Income (loss) from discontinued operations, net of taxes	0.03	0.02	0.04	0.07	0.06
Net income (loss) attributable to Prudential Financial, Inc.	$ 3.23	$ (1.55)	$ 1.05	$ 7.12	$ 5.26
Dividends declared per share Common Stock	$ 2.17	$ 1.73	$ 1.60	$ 1.45	$ 1.15

Basic and diluted earnings per share Class B Stock:					
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (70.00)	$ 22.00	$ 11.50	$ 61.00	$ 229.00
Income (loss) from discontinued operations, net of taxes	0.56	0.00	(1.00)	0.00	0.50
Net income (loss) attributable to Prudential Financial, Inc.	$ (69.44)	$ 22.00	$ 10.50	$ 61.00	$ 229.50
Dividends declared per share Class B Stock	$ 9.625	$ 9.625	$ 9.625	$ 9.625	$ 9.625
Ratio of earnings to fixed charges(1)	1.25		1.11	1.83	1.75

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	As of December 31,				
	2014	2013	2012	2011	2010
			(in millions)		
Balance Sheet Data:					
Total investments excluding policy loans	$ 408,274	$ 386,407	$ 394,007	$ 344,688	$ 273,245
Separate account assets	296,435	285,060	253,254	218,380	207,776
Total assets	766,655	731,781	709,235	620,114	535,508
Future policy benefits and policyholders account balances	353,916	343,516	350,463	305,229	240,489
Separate account liabilities	296,435	285,060	253,254	218,380	207,776
Short-term debt	3,839	2,669	2,484	2,336	1,982
Long-term debt	19,831	23,553	24,729	24,622	23,653
Total liabilities	724,306	695,900	670,123	585,475	505,689
Prudential Financial, Inc. equity	41,770	35,278	38,503	34,130	29,346
Noncontrolling interests	579	603	609	509	473
Total equity	$ 42,349	$ 35,881	$ 39,112	$ 34,639	$ 29,819

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

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

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

Overview

From demutualization on December 18, 2001 through December 31, 2014, the businesses of Prudential Financial have been separated into the Financial Services Businesses and the Closed Block Business for financial statement purposes, and Prudential Financial has had two classes of common stock: the Common Stock, which is publicly traded (NYSE:PRU) and which has 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 has reflected the performance of the Closed Block Business.

On January 2, 2015, pursuant to a Share Repurchase Agreement, Prudential Financial repurchased from the Class B Holders 2.0 million shares of the Class B Stock, representing all of the outstanding shares of the Class B stock, for an aggregate cash purchase price of $650.8 million (the Class B Repurchase). The purchase price was determined by an independent appraiser under the methodology set forth in Prudential Financial s Amended and Restated Certificate of Incorporation. Pursuant to the Share Repurchase Agreement, holders of a majority of the Class B Stock may dispute the purchase price prior to April 6, 2015, and any dispute may be resolved through arbitration. Accordingly, the final purchase price of the Class B Stock may change in the event of a dispute. Effective December 1, 2014, the Class B Repurchase was recorded within the Closed Block Business and resulted in a reduction to Total Prudential Financial, Inc. equity in the Consolidated Statements of Financial Position. In addition, on December 18, 2014, PHLLC redeemed all of the then outstanding IHC Debt, for an aggregate redemption price of $2.1 billion.

As a result of the Class B Repurchase, for reporting periods commencing after December 31, 2014, the Company s earnings per share of Common Stock will reflect the consolidated earnings of Prudential Financial, and the distinction between the Financial Services Businesses and the Closed Block Business will be eliminated. See Business Elimination of the Separation of the Businesses and Note 25 to the Consolidated

Financial Statements for additional information.

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This Annual Report on Form 10-K relates to the fiscal year ended December 31, 2014 and, accordingly, follows the historic, separate presentation of each of the businesses.

Financial Services Businesses

Our Financial Services Businesses consist of three operating divisions, which together encompass six 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. Our Corporate and Other operations include corporate items and initiatives that are not allocated to business segments, as well as businesses that have been or will be divested.

For reporting periods commencing after December 31, 2014, we will no longer refer to the aforementioned divisions as the Financial Services Businesses, but will continue to report on these divisions and segments and our Corporate and Other operations. In addition, the Company will report a Closed Block division, which will be comprised of the Closed Block segment, and will be accounted for as a divested business under our definition of adjusted operating income. The Closed Block division will be reported separately from our other divested businesses that are included in Corporate and Other operations.

We attribute financing costs to each segment based on the amount of financing used by each segment, excluding financing costs associated with corporate debt which are reflected in Corporate and Other operations. The net investment income of each segment includes earnings on the amount of capital that management believes is necessary to support the risks of that segment.

We seek growth internally and through acquisitions, joint ventures or other forms of business combinations or investments. Our principal acquisition focus is in our current business lines, both domestic and international.

Closed Block Business

In connection with the demutualization, we ceased offering domestic participating products. The liabilities for our traditional domestic in force participating products were segregated, together with assets, in a regulatory mechanism referred to as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations for future policy dividends after demutualization of holders of participating individual life insurance policies and annuities included in the Closed Block by allocating assets that will be used exclusively for payment of benefits, including policyholder dividends, expenses and taxes with respect to these products. See Note 12 to the Consolidated Financial Statements and Business Overview for more information on the Closed Block.

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 individual life insurance,

group life and disability insurance, and certain 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 the various products we sell 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, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company.

Executive Summary

Industry Trends

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

U.S. Businesses

Financial and Economic Environment. Although economic and financial conditions continue to show signs of improvement, 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.

Regulatory Environment. Financial markets continue to experience extensive changes in existing laws and regulations. The Company is subject to prudential regulatory standards as a Designated Financial Company. Captive reinsurance companies also continue to be under increased scrutiny and are the subject of a new actuarial guideline applicable to the Company. In addition, state insurance laws regulate our U.S. insurance businesses and our insurance products are substantially affected by federal and state tax laws. Insurance regulators have implemented significant changes in the way in which industry participants must determine statutory reserves and statutory capital, particularly for products with embedded options and guarantees such as variable annuities and universal life products with secondary guarantees.

Demographics. Income protection, wealth accumulation and the needs of retiring baby boomers continue to shape the insurance industry. Retirement security is one of the most critical issues in the U.S. for individuals and the investment professionals and institutions that support them. The risk and responsibility of retirement savings continues to shift to employees, away from the government and employers. Life

insurance ownership among U.S. households remains low, with consumers citing other financial priorities and cost of insurance as reasons for the lack of coverage.

Competitive Environment. See Business Competition, Business Financial Services Businesses U.S. Retirement Solutions and Investment Management Division and Business Financial Services Businesses 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; however, the local market has adapted to the low interest rate environment in Japan. The continued low interest rate environment in the U.S. may impact the attractiveness

of U.S. dollar-denominated products in Japan relative to yen-denominated products. We are also 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. Effective in April 2013, Japanese insurance regulators changed the standard discount rate for statutory reserves on new business. This resulted in increased statutory reserve requirements for new business and selective re-pricing of insurance products by insurers intended to maintain expected returns. We anticipate further changes in solvency regulation from jurisdiction to jurisdiction based on regulatory developments in the U.S., the European Union, and recommendations by the International Association of Insurance Supervisors, as well as regulatory requirements for those companies deemed to be global systemically important insurers (G-SII) in the U.S. or abroad. In addition, local regulators, including in Japan, may apply heightened scrutiny to non-domestic companies. Internationally, regulators are also increasingly adopting measures to provide greater consumer protection and privacy rights. Further, the Japanese consumption tax rate increase in 2014 has led to increased costs for insurers. Effective in January 2015, Japan amended its inheritance tax laws, which lowered the exemption amount and increased tax rates. The increase in this tax could make protection products more attractive to our customers as they look for ways to manage the increased inheritance tax burden. See Business Regulation Regulation of our International Businesses for a discussion of the consumption and inheritance taxes.

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 transitions to retirement. We are seeing a similar shift to retirement-oriented products across the Asian markets, including Korea and Taiwan, each of which also has an aging population.

Competitive Environment. See Business Competition, and Business Financial Services Businesses International Insurance Division for a discussion of the competitive environment and the basis on which we compete.

Impact of a Low Interest Rate Environment

Domestic Financial Services Businesses

As interest rates in the U.S. continue to remain lower than historical levels, our current reinvestment yields are consequently lower than the overall portfolio yield, primarily for our investments in fixed maturity securities and commercial mortgage loans. With the Federal Reserve Board s stated intention to keep interest rates low for a considerable time, our overall portfolio yields are expected to continue to decline.

For the domestic Financial Services Businesses general account, we expect annual scheduled payments and prepayments to be approximately 10% of the fixed maturity security and commercial mortgage loan portfolios through 2016. The domestic Financial Services Businesses general account has approximately $168 billion of such assets (based on net carrying value) as of December 31, 2014. As these assets mature, the average portfolio yield for fixed maturities and commercial mortgage loans of approximately 4.5%, as of December 31, 2014, is expected to decline due to reinvesting in a lower interest rate environment. Included in the $168 billion of fixed maturity securities and commercial mortgage loans are approximately $75 billion of assets that are subject to call or redemption features at the issuer s option and have a weighted average interest rate of approximately 5%. As of December 31, 2014, approximately 80% of these assets contain prepayment penalties.

The reinvestment of scheduled payments and prepayments at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, will impact future operating results to the extent we do not, or are unable to, reduce crediting rates on in-force blocks of business, or effectively utilize other asset/liability management strategies described below, in order to maintain current net interest margins. As of December 31, 2014, our domestic Financial Services Businesses have approximately $166 billion of insurance liabilities and policyholder account balances. Of this amount, approximately $50 billion represents contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed

minimums. 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, 2014, and the respective guaranteed minimums.

	Account Values with Crediting Rates:					
	At guaranteed minimum	1 - 49 bps above guaranteed minimum	50 - 99 bps above guaranteed minimum	100 - 150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
	($ billions)					
Range of Guaranteed Minimum Crediting Rates:						
Less than 1.00%	$ 0.8	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.8
1.00% 1.99%	2.0	2.3	10.9	1.5	0.2	16.9
2.00% 2.99%	2.2	0.0	0.6	1.9	0.1	4.8
3.00% 4.00%	24.0	1.8	0.5	0.2	0.0	26.5
Greater than 4.00%	0.8	0.0	0.0	0.0	0.0	0.8
Total	$ 29.8	$ 4.1	$ 12.0	$ 3.6	$ 0.3	$ 49.8
Percentage of total	60%	8%	24%	7%	1%	100%

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.

Our domestic Financial Services Businesses also have approximately $14 billion of insurance liabilities and policyholder account balances representing participating contracts for which the investment income risk is expected to ultimately accrue to contractholders. The crediting rates for these contracts are periodically adjusted based on the yield earned on the related assets. The remaining $102 billion of the $166 billion of insurance liabilities and policyholder account balances in our domestic Financial Services Businesses 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.

For the domestic Financial Services Businesses general account, assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 2.15% for the period from January 1, 2015 through December 31, 2016, and credit spreads remain unchanged from levels as of December 31, 2014, 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 $17 million in 2015 and $50 million in 2016. This impact is most significant in the Retirement and Individual Annuities segments. This hypothetical scenario only reflects the impact related to the approximately $50 billion of contracts shown in the table above, and does not reflect: i) any benefit from potential changes to the crediting rates on the corresponding contractholder liabilities where the Company has the contractual ability to do so, or other potential mitigants such as changes in investment mix that we may implement as funds are reinvested; ii) any impact related to assets that do not directly support our liabilities; iii) any impact from other factors, including but not limited to, new business, contractholder behavior, changes in competitive conditions, and changes in capital markets; or iv) any impact from other factors described below.

In order to mitigate the unfavorable impact that the current interest rate environment has on our net interest margins, we employ a proactive asset/liability management program, which includes strategic asset allocation and derivative strategies within a disciplined risk management framework. These strategies seek to match the characteristics of our products, and to closely approximate the interest rate sensitivity of the assets with the estimated interest rate sensitivity of the product liabilities. Our asset/liability management program also helps manage duration gaps,

currency and other risks between assets and liabilities through the use of derivatives. We adjust this dynamic process as products change, as customer behavior changes and as changes in the market environment occur. As a result, our asset/liability management process has permitted us to manage interest-sensitive 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.

Japanese Insurance Operations

Our Japanese insurance operations have experienced a low interest rate environment for many years. As of December 31, 2014, these operations have approximately $120 billion of insurance liabilities and policyholder account balances, which are predominantly comprised of long duration insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. Also included in the $120 billion are approximately $7 billion of insurance liabilities and policyholder account balances with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums; however, for these contracts, most of the current crediting rates are substantially at or near contractual minimums. Although we have the ability to lower crediting rates in some cases for those contracts above guaranteed minimum crediting rates, the majority of this business has credited interest rates which are determined by formula. Our Japanese insurance operations employ a proactive asset-liability management program in order to mitigate the unfavorable impact that the current interest rate environment has on our net interest margins, and includes strategies similar to those described for the domestic Financial Services Businesses above.

Current Developments

On October 28, 2014, we announced that we have entered into a memorandum of understanding with Inversiones La Construcción S.A. (ILC), the investment subsidiary of the Chilean Construction Chamber, to acquire an indirect ownership interest in Administradora de Fondos de Pensiones Habitat S.A. (AFP Habitat), a leading provider of retirement services in Chile. We expect to acquire indirectly between approximately 34% and 40% of AFP Habitat from ILC, depending on the results of a pre-closing partial tender offer by ILC to acquire additional shares of AFP Habitat from public shareholders. We would acquire the indirect interest in the AFP Habitat shares from subsidiaries of ILC for 925 Chilean pesos per share, for a total purchase price of approximately $530 million to $620 million at current exchange rates as of October 28, 2014. It is expected that the transaction would result in equal ownership positions for us and ILC, with a controlling stake in AFP Habitat held through a joint holding company. The transaction, which is subject to certain conditions, including receipt of regulatory approvals, is expected to close in the first half of 2015. This acquisition will enable us to participate in the growing Chilean pension market.

On June 10, 2014, Prudential Financial s Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock during the period from July 1, 2014 through June 30, 2015. We purchased 5.7 million shares in the last six months of 2014 under this authorization at a total cost of $500 million. The timing and amount of any share repurchases will be determined by management based upon market conditions and other considerations, and such repurchases may be effected in the open market, through derivative, accelerated repurchase and negotiated transactions and through prearranged trading plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934 (the Exchange Act), as amended. We purchased 12 million shares of our Common Stock at a total cost of $1.0 billion, under the prior twelve-month $1.0 billion share repurchase authorization that expired on June 30, 2014, including 5.9 million shares purchased in the first six months of 2014 at a total cost of $500 million.

On each of February 11, 2014, May 13, 2014, August 12, 2014, Prudential Financial s Board of Directors declared a cash dividend of $0.53 per share of Common Stock. On November 11, 2014, Prudential Financial s Board of Directors declared a cash dividend of $0.58 per share of Common Stock. On February 10, 2015, Prudential Financial s Board of Directors declared a cash dividend of $0.58 per share of Common Stock.

Regulatory Developments

Prudential Financial is a Designated Financial Company under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank). As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the Federal Reserve Bank

of Boston and to prudential regulatory standards under the Dodd-Frank Act. The Financial Stability Board (the FSB), consisting of representatives of national financial authorities of the G20 nations, has also identified Prudential Financial as a G-SII that is to be subject to enhanced regulation.

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In December 2014, an amendment to the Collins Amendment was enacted to clarify that, in establishing minimum capital requirements for insurance holding companies that the Board of Governors of the Federal Reserve System (FRB) supervises (including Designated Financial Companies such as Prudential Financial), the FRB is permitted to exclude certain insurance activities from such requirements. For a discussion of regulation under the Dodd-Frank Act, see Business Regulation Dodd-Frank Wall Street Reform and Consumer Protection Act .

During the fourth quarter of 2014, we reached an agreement with the New York State Department of Financial Services (NY DFS) on reserving methodologies for New York financial reporting purposes in respect of certain variable annuity products and life insurance products. For a discussion of the impact of the agreement, see Business Regulation Insurance Operations State Insurance Regulation Insurance Reserves and Regulatory Capital .

In December 2014, the National Association of Insurance Commissioners (NAIC) Principle-Based Reserving Implementation Task Force adopted Actuarial Guideline (AG 48) designed to implement requirements related to the determination of the portion of reserves that may be supported by specified asset classes in connection with certain transactions involving captive reinsurance companies, and it became effective on January 1, 2015. For a discussion of the impact of AG 48 see Business Regulation Insurance Operations State Insurance Regulation Captive Reinsurance Companies .

For additional information on the potential impacts of regulation on the Company, including the topics described above, see Business Regulation and Risk Factors .

Outlook

Management expects that results in 2015 will continue to reflect the quality of our individual businesses and their prospects, as well as our overall business mix and effective capital management. In 2015, we will continue to focus on long-term strategic positioning and growth opportunities, including the following:

U.S. Retirement and Investment Management Market. We seek to capitalize on the growing need of baby boomers for products that provide guaranteed income for longer retirement periods. In addition, we continue to focus on our clients increasing needs for retirement income security given volatility in the financial markets. We also seek to provide products that respond to the needs of plan sponsors to manage risk and control their benefit costs.

U.S. Insurance Market. We 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. We also seek to capitalize on opportunities for additional voluntary life purchases in the group insurance market, as institutional clients are focused on controlling their benefit costs.

International Markets. We continue to concentrate on deepening our presence in the markets in which we currently operate, such as Japan, and expanding our distribution capabilities in emerging markets. We seek to capitalize on opportunities arising in international markets as changing demographics and public policy have resulted in a growing demand for retirement income products.

Results of Operations

Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the year ended December 31, 2014 was $1,533 million compared to a net loss of $713 million for 2013.

We analyze performance of the segments and Corporate and Other operations of the Financial Services Businesses using a measure called adjusted operating income. See Consolidated Results of Operations Segment Measures for a discussion of adjusted operating income and its use as a measure of segment operating performance.

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Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the years ended December 31, 2014, 2013 and 2012 and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income from continuing operations before income taxes and equity in earnings of operating joint ventures.

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Adjusted operating income before income taxes for segments of the Financial Services Businesses:			
Individual Annuities	$ 1,467	$ 2,085	$ 1,039
Retirement	1,215	1,039	638
Asset Management	785	723	584
Total U.S. Retirement Solutions and Investment Management Division	3,467	3,847	2,261
Individual Life	498	583	384
Group Insurance	23	157	16
Total U.S. Individual Life and Group Insurance Division	521	740	400
International Insurance	3,252	3,152	2,704
Total International Insurance Division	3,252	3,152	2,704
Corporate and Other	(1,348)	(1,370)	(1,338)
Adjusted operating income before income taxes for the Financial Services Businesses	5,892	6,369	4,027
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments(1)	(3,588)	(9,956)	(3,666)
Charges related to realized investment gains (losses), net(2)	(542)	1,807	857
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	339	(250)	610
Change in experience-rated contractholder liabilities due to asset value changes(4)	(294)	227	(540)
Divested businesses(5)	167	29	(615)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(6)	44	28	(29)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	2,018	(1,746)	644
Income (loss) from continuing operations before income taxes for Closed Block Business	(259)	62	64
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,759	$ (1,684)	$ 708

(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 deferred policy acquisition costs and other costs, and on changes in reserves. Also includes charges resulting from payments related to market value adjustment features of certain of our annuity products and the impact of realized investment gains (losses), net, on the amortization of unearned revenue reserves.
(3) Represents net investment gains and 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) See Divested Businesses.
(6) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before taxes and equity earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that

relates to the equity interests of minority investors.

Results for 2014 presented above reflect the following:

Individual Annuities. Segment results for 2014 decreased in comparison to 2013. The decrease reflected an unfavorable comparative impact from changes in the estimated profitability of the business, driven by market

performance relative to assumptions, and annual reviews and updates of assumptions performed in the third quarter of each year. This decrease was partially offset by higher asset-based fee income, driven by higher average variable annuity account values, net of a related increase in asset-based commissions.

Retirement. Segment results for 2014 increased in comparison to 2013. The increase reflected higher net investment spread results and higher fee income, including the contribution of significant longevity reinsurance transactions in 2014. Also contributing to the increase was a more favorable reserve impact from case experience, partially offset by higher general and administrative expenses, net of capitalization.

Asset Management. Segment results for 2014 increased in comparison to 2013, primarily reflecting higher asset management fees, net of expenses, as a result of higher assets under management due to market appreciation and positive net asset flows. The increase also reflected higher performance-based incentive fees, net of expenses, partially offset by lower commercial mortgage results.

Individual Life. Segment results for 2014 decreased in comparison to 2013, primarily reflecting unfavorable comparative impacts from our annual reviews and updates of assumptions and unfavorable reserve updates for guaranteed minimum death benefits, partially offset by lower integration costs associated with the acquisition of The Hartford Life Business, higher net contributions from investment results and more favorable mortality experience, net of reinsurance.

Group Insurance. Segment results decreased in 2014 in comparison to 2013, primarily reflecting unfavorable comparative impacts from our annual reviews and updates of assumptions as well as higher operating expenses, partially offset by more favorable comparative underwriting results in our group disability business and a higher contribution from net investment spread results.

International Insurance. Segment results for 2014 increased in comparison to 2013, reflecting a favorable comparative impact from our annual reviews and updates of assumptions, net business growth and the absence of integration costs associated with our acquisition of the Star and Edison Businesses. These items were partially offset by less favorable foreign currency exchange rates, higher net expenses and higher reserve refinements. Prior year results also benefited from both the impact of a gain on our investment, through a consortium, in China Pacific Group and from a greater impact from accelerated earnings due to surrenders of certain fixed annuities.

Corporate and Other operations. The results for 2014 as compared to 2013 reflect a decrease in losses primarily driven by reduced retained corporate expenses and lower capital and operating debt interest expense, net of investment income, partially offset by lower income from our qualified pension plan.

Closed Block Business. Income from continuing operations before income taxes decreased from 2013 primarily driven by an increase in the policyholder dividend obligation and costs associated with the early redemption of the IHC Debt, partially offset by an increase in net realized investment gains.

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Consolidated Results of Operations

The following table summarizes net income for the Financial Services Businesses and the Closed Block Business for the periods presented.

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Financial Services Businesses:			
Revenues	$ 47,199	$ 35,425	$ 78,590
Benefits and expenses	45,181	37,171	77,946
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	2,018	(1,746)	644
Income tax expense (benefit)	455	(1,074)	192
Income (loss) from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	1,563	(672)	452
Equity in earnings of operating joint ventures, net of taxes	16	59	60
Income (loss) from continuing operations for Financial Services Businesses	1,579	(613)	512
Income from discontinued operations, net of taxes	11	7	17
Net income (loss) Financial Services Businesses	1,590	(606)	529
Less: Income attributable to noncontrolling interests	57	107	50
Net income (loss) of Financial Services Businesses attributable to Prudential Financial, Inc.	$ 1,533	$ (713)	$ 479
Closed Block Business:			
Revenues	$ 6,906	$ 6,036	$ 6,257
Benefits and expenses	7,165	5,974	6,193
Income (loss) from continuing operations before income taxes for Closed Block Business	(259)	62	64
Income tax expense (benefit)	(106)	16	21
Income (loss) from continuing operations for Closed Block Business	(153)	46	43
Income (loss) from discontinued operations, net of taxes	1	0	(2)
Net income (loss) Closed Block Business	(152)	46	41
Less: Income attributable to noncontrolling interests	0	0	0
Net income (loss) of Closed Block Business attributable to Prudential Financial, Inc.	$ (152)	$ 46	$ 41
Consolidated:			
Net income (loss) attributable to Prudential Financial, Inc.	$ 1,381	$ (667)	$ 520

Results of Operations Financial Services Businesses

2014 to 2013 Annual Comparison. Income from continuing operations for the Financial Services Businesses increased $2,192 million. Results reflect the following:

$5,443 million favorable impact from net pre-tax realized gains (losses), excluding the impact of the hedging program associated with certain variable annuities, primarily reflecting changes in the market value of derivatives due to a decrease in interest rates in 2014 compared to an increase in interest rates in 2013 (see Realized Investment Gains and Losses for additional information);

$4,313 million favorable variance, before income taxes, 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 for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities Variable Annuity Hedging Program Results for additional information); and

$889 million higher net pre-tax earnings resulting from the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance

operations which are economically matched and offset in Accumulated other comprehensive income (AOCI), driven by changes in the value of the Japanese yen against the U.S. dollar in both years (see Results of Operations for Financial Services Businesses by Segment International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of products denominated in non-local currencies for additional information).

Partially offsetting these increases were the following:

$5,765 million less favorable results, on a pre-tax basis, associated with our Capital Protection Framework, driven by a decrease in interest rates in 2014 compared to an increase in 2013, reflecting our management of interest rate risk through this framework (see Results of Operations for Financial Services Businesses by Segment Corporate and Other Capital Protection Framework for additional information);

$1,529 million unfavorable impact reflecting tax expense in 2014 compared to a tax benefit in 2013, largely driven by pre-tax income in 2014 compared to a loss in 2013 (see Income Taxes for additional information); and

$1,047 million unfavorable variance, before taxes, from adjustments to deferred policy acquisition and other costs as well as reserves, reflecting updates to the estimated profitability of our businesses. This excludes the impact associated with the variable annuity hedging program (see Results of Operations for Financial Services Businesses by Segment for additional information).

In addition to these impacts, results reflect business growth including the impact of higher account values, particularly within our U.S. Retirement Solutions and Investment Management Division.

2013 to 2012 Annual Comparison. Income from continuing operations for the Financial Services Businesses decreased $1,125 million. Results reflect the following:

$3,072 million unfavorable variance, before income taxes, reflecting the net impact from changes in the value of our embedded derivatives and related hedge positions associated with certain variable annuities;

$2,392 million lower net pre-tax earnings resulting from the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations which are economically matched and offset in AOCI, driven by the weakening of the Japanese yen; and

$1,802 million unfavorable impact from net pre-tax realized gains (losses), excluding the impact of the hedging program associated with certain variable annuities, primarily reflecting changes in the market value of derivatives due to changes in interest rates and foreign currency exchange rate movements.

Partially offsetting these decreases were the following:

$1,903 million more favorable results, on a pre-tax basis, associated with our Capital Protection Framework, driven by an increase in interest rates, reflecting our management of interest rate risk through this framework;

$1,408 million favorable variance, before taxes, from adjustments to deferred policy acquisition and other costs as well as reserves, reflecting updates to the estimated profitability of our businesses primarily driven by the impact of our annual reviews and updates of assumptions performed in the third quarter of each year. This includes the absence of a $698 million net charge in 2012 associated with long-term care products, which are included in Divested Businesses, but excludes the impact associated with the variable annuity hedging program discussed above; and

$1,266 million favorable impact reflecting a decrease in income tax expense driven by a pre-tax loss in 2013 compared to pre-tax income in 2012.

In addition to the items above, our segment s earnings benefited from business growth, including the impact from higher account values, particularly within our U.S. Retirement Solutions and Investment Management Division, growth of in force in our International Insurance Division, contributions from our acquisition of the Hartford Life Business, and higher income from non-coupon investments.

Results of Operations Closed Block Business

For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business below.

Segment Measures

Adjusted Operating Income. In managing our business, we analyze operating performance separately for our Financial Services Businesses and our Closed Block Business. For the Financial Services Businesses, 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 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 the 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 the Financial Services Businesses. Results of the Closed Block Business are evaluated and presented in accordance with U.S. GAAP. As described in Overview above, for reporting periods commencing after December 31, 2014, the Company will no longer refer to the Financial Services Businesses or the Closed Block Business. The Closed Block division will be accounted for as a divested business under our definition of adjusted operating income. Under both the current reporting for the Closed Block Business and the future reporting for the Closed Block division, its results are excluded from adjusted operating income.

See Note 22 to the Consolidated Financial Statements for further information on the presentation of segment results and our definition of adjusted operating income.

Annualized New Business Premiums. In managing certain of our businesses, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP. Annualized new business premiums measure the current sales performance of the business, while revenues primarily reflect the renewal persistency of policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums include 10% of first year premiums or deposits from single pay products. No other adjustments are made for limited pay contracts.

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

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or 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.

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

Deferred Policy Acquisition and Other Costs

We capitalize costs that are directly related to the acquisition or renewal of insurance and annuity contracts. These costs primarily include commissions, as well as costs of policy issuance and underwriting and certain other expenses that are directly related to successfully negotiated contracts. We have also deferred costs associated with sales inducements related to our variable and fixed annuity contracts primarily within our Individual Annuities segment. Sales inducements are amounts that are credited to the policyholder s account balance as an inducement to purchase the contract. For additional information about sales inducements, see Note 11 to the Consolidated Financial Statements. We generally amortize these deferred policy acquisition costs (DAC) and deferred sales inducements (DSI) over the expected lives of the contracts, based on our estimates of the level and timing of gross margins, gross profits, or gross premiums, depending on the type of contract. As described in more detail below, in calculating DAC and DSI amortization, we are required to make assumptions about investment returns, mortality, persistency, and other items that impact our estimates of the level and timing of gross margins, gross profits, or gross premiums. We also periodically evaluate the recoverability of our DAC and DSI. For certain contracts, this evaluation is performed as part of our premium deficiency testing, as discussed further below in Policyholder Liabilities. As of December 31, 2014, DAC and DSI in our Financial Services Businesses were $15.6 billion and $1.5 billion, respectively, and DAC in our Closed Block Business was $410 million.

Amortization methodologies

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, 2014, the excess of actual cumulative earnings over the expected cumulative earnings was $1,558 million.

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

DAC and DSI associated with the variable and universal life policies of our Individual Life and International Insurance segments and the variable and fixed annuity contracts of our Individual Annuities and International Insurance segments are generally amortized over the expected life of these policies in proportion to total gross profits. Total gross profits include both actual gross profits and estimates of gross profits for future periods. In calculating gross profits, we consider mortality, persistency, and other elements as well as rates of return on investments associated with these contracts and the costs related to our guaranteed minimum death and guaranteed minimum income benefits. For variable annuities in our Individual Annuities segment, U.S. GAAP gross profits and amortization rates also include the impacts of the embedded derivatives associated with certain of the living benefit features of our variable annuity contracts and related hedging activities. In calculating amortization expense, we estimate the amounts of gross profits that will be included in our U.S. GAAP results and in adjusted operating income, and utilize these estimates to calculate distinct amortization rates and expense

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

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, 2014.

Annual assumptions review and quarterly adjustments

Annually, we perform a comprehensive review of the assumptions used in estimating gross profits for future periods. Results for all reported periods reflect performance of this review in the third quarter of each year. Beginning in 2015, we will perform our annual review of assumptions during the second quarter. 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 assumptions used in evaluating DAC and DSI for our domestic variable annuity and variable life insurance products are 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 (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, we use our maximum future rate of return. Historically, we have utilized a four year near-term period and a 13% maximum future rate of return in applying this methodology. Beginning in the third quarter of 2014, we adjust future projected equity returns over a five year near-term period and utilize a 15% maximum. As of December 31, 2014, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity

expected rate of return and a 3.5% near-term mean reversion equity rate of return.

The weighted average rate of return assumptions for these businesses consider many factors specific to each business, including asset durations, asset allocations and other factors. We generally update the near term equity

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rates of return and our estimate of total gross profits each quarter to reflect the result of the reversion to the mean approach, which assumes a convergence to the long-term equity expected rates of return. 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

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

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

The DAC balance associated with the variable and universal life policies of our Individual Life segment as of December 31, 2014 was $4.1 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, 2014 Increase/(Decrease) in DAC (in millions)	
Decrease in future mortality by 1%	$	41
Increase in future mortality by 1%	$	(43)

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 2014, updates to mortality assumptions drove the most significant changes to amortization expense. For a discussion of DAC adjustments related to our Individual Life segment for the years ended December 31, 2014, 2013 and 2012, see Results of Operations for Financial Services Businesses by Segment U.S. Individual Life and Group Insurance Division Individual Life.

For the variable annuity contracts of our Individual Annuities segment, DAC and DSI are more sensitive to changes in our future rate of return assumptions due primarily to the significant portion of our gross profits that is dependent upon the total rate of return on assets held in separate account investment options. The DAC and DSI balances associated with our domestic variable annuity contracts were $5.4 billion and $1.5 billion, respectively, as of December 31, 2014. 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 basis points. 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, 2014	
	Increase/ (Decrease) in DAC	Increase/ (Decrease) in DSI
	(in millions)	
Decrease in future rate of return by 100 basis points	$ (136)	$ (59)
Increase in future rate of return by 100 basis points	$ 120	$ 55

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 2014, updates to lapse rate and utilization rate assumptions drove the most significant changes to amortization expense. For a discussion of DAC and DSI adjustments related to our Individual Annuities segment for the years ended December 31, 2014, 2013 and 2012, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Value of Business Acquired

In addition to DAC and DSI, we also recognize an asset for value of business acquired, or 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, 2014, VOBA was $2,836 million, and included $1,554 million related to the acquisition from AIG of the Star and Edison Businesses on February 1, 2011, and $1,036 million related to the acquisition of the Hartford s individual life insurance business on January 2, 2013. See Note 3 to the Consolidated Financial Statements for additional information on these acquisitions. The remaining $246 million primarily relates to previously-acquired traditional life, deferred annuity, defined contribution and defined benefit businesses.

The VOBA associated with the individual life insurance business acquired from the Hartford is generally 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, 2014 Increase/(Decrease) in VOBA (in millions)
Decrease in future mortality by 1%	$ 18
Increase in future mortality by 1%	$ (19)

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 2014, updates to investment-related assumptions drove the most significant changes to amortization expense. For a discussion of the drivers of results related to our Individual Life segment for the year ended December 31, 2014, see Results of Operations for Financial Services Businesses by Segment U.S. Individual Life and Group Insurance Division Individual Life.

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

Goodwill

As of December 31, 2014, our goodwill balance of $831 million is reflected in the following four reporting units: $444 million related to our Retirement Full Service business, $235 million related to our Asset Management business, $137 million related to our Gibraltar Life and Other operations and $15 million related to our International Insurance Life Planner business.

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

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

In the Retirement Full Service business and Gibraltar Life and Other operations, we also elected to bypass the qualitative assessment and complete the impairment analysis using a discounted cash flow approach. The discounted cash flow approach calculates the value of a business by applying a discount rate reflecting the market expected weighted average rate of return to the projected future cash flows of the reporting unit. These projected future cash flows were based on our internal forecasts, an expected growth rate and a terminal value. The weighted average rate of return (WARR) represents the required rate of return on total capitalization. It is comprised of a required rate of return on equity of a company and the current tax-affected cost of debt, which are then weighted by the relative percentages of equity and debt assumed in the capital structure. To estimate the return on equity, we applied the 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. CAPM is determined by beginning with the long-term risk-free rate of return then applying adjustments that consider the equity risk premium required for large company common stock investments as well as company specific adjustments to address volatility, small company premiums and other risks particular to a specific company. The WARR calculation is applied to a group of companies considered peers of the reporting unit to develop a weighted average rate of return for the peer group which is then used to estimate the market expected weighted average rate of return for the reporting unit. This process resulted in a discount rate of 12% which was 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.

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After completion of Step 1 of the quantitative tests, the fair values exceeded the carrying amounts for each of the four reporting units and we concluded there was no impairment as of December 31, 2014. The Asset Management, International Insurance s Life Planner, Gibraltar Life and Other operations, and Retirement Full Service businesses had estimated fair values that exceeded their carrying amounts, each by more than 75%.

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

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

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, other invested assets, and derivative financial instruments. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the values of securities or commodities. Derivative financial instruments we generally use include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter 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; and
- Determination of the valuation allowance for losses on commercial mortgage and other loans.

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 other-than-temporary impairments of fixed maturity and equity securities, see Note 2 to the Consolidated Financial Statements.

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

Policyholder Liabilities

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

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

For most long duration contracts, we utilize best estimate assumptions as of the date the policy is issued or acquired with provisions for the risk of adverse deviation, as appropriate. After the liabilities are

initially established, we perform premium deficiency tests using best estimate assumptions as of the testing date without provisions for adverse deviation. If the liabilities determined based on these best estimate assumptions are greater than the net reserves (i.e., GAAP reserves net of any DAC, DSI or VOBA asset), the existing net reserves are adjusted by first reducing these assets by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than these asset balances for insurance contracts, we then increase the net reserves by the excess, again through a charge to current period earnings. If a premium deficiency is recognized, the assumptions as of the premium deficiency test date are locked in and used in subsequent valuations.

For certain reserves, such as our contracts with guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB) and no lapse guarantees, we utilize current best estimate assumptions in establishing reserves. The reserves are subject to adjustments based on annual reviews of assumptions and quarterly adjustments for experience, including market performance, and the reserves may be adjusted through a benefit or charge to current period earnings.

For certain product guarantees, primarily certain living benefit features of the variable annuity products in our Individual Annuities segment, the benefits are accounted for as embedded derivatives, with fair values calculated as the present value of expected future benefit payments to contractholders less the present value of assessed rider fees attributable to the embedded derivative feature. Under U.S. GAAP, the fair values of these benefit features are based on assumptions a market participant would use in valuing these embedded derivatives. Changes in the fair value of the embedded derivatives are recorded quarterly through a benefit or charge to current period earnings.

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

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

The future policy benefit reserves for our International Insurance segment, which as of December 31, 2014, represented 41% of our total future policy benefit reserves, primarily relate to non-participating whole life and term life products and endowment contracts, and are generally determined as the present value of expected future benefits to, or on behalf of, policyholders plus the present value of future maintenance expenses less the present value of future net premiums. For these reserves, we utilize best estimate assumptions as of the date the policy is issued or acquired with provisions for the risk of adverse deviation, as described above. The primary assumptions used in determining expected future benefits and expenses include mortality, lapse, morbidity, investment yield and maintenance expense assumptions. In addition, future policy benefit reserves for certain contracts also include amounts related to our deferred profit liability.

The reserves for future policy benefits of our Retirement segment, which as of December 31, 2014 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 interest rate assumptions. In addition, future policy benefit reserves for certain contracts also include amounts related to our deferred profit liability, determined as of the date of issue, net of accumulated amortization.

The reserves for future policy benefits of our Individual Annuities segment, which as of December 31, 2014 represented 5% of our total future policy benefit reserves, primarily relate to reserves for the GMDB and GMIB features of our variable annuities, and for the optional living benefit features that are accounted for as embedded

derivatives. As discussed above, in establishing reserves for GMDBs and GMIBs, we utilize current best estimate assumptions. The primary assumptions used in establishing these reserves include annuitization, lapse, withdrawal and mortality assumptions, as well as interest rate and equity market return assumptions. Lapse rates are adjusted at the contract level based on the in-the-moneyness of the living benefit and reflect other factors, such as the applicability of any surrender charges. Lapse rates are reduced when contracts are more in-the-money. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.

The reserves for certain living benefit features, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB), are accounted for as embedded derivatives, with fair values calculated as the present value of expected future benefit payments to contractholders less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company s market-perceived risk of its own non-performance (NPR), as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal rates, and mortality rates. Capital market inputs and actual contractholders account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk neutral valuation, the initial swap curve drives the total returns used to grow the contractholders account values. The Company s discount rate assumption is based on the 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, 2014, represented 4% of our total future policy benefit reserves, primarily relate to variable life, term life and universal 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.

The reserves for future policy benefits of our Corporate & Other operations, which as of December 31, 2014 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 remaining reserves for future policy benefits for the Financial Services Businesses, which represented 2% of our total future policy benefit reserves as of December 31, 2014, primarily represents reserves for the group life and disability benefits in our Group Insurance segment. This includes our liability for unpaid claims and claim adjustment expenses for our Group Insurance segment of $2.9 billion as of December 31, 2014 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 we believe have been incurred, but have not yet been reported as of the balance sheet date. For short duration contracts, we do not establish loss liabilities until a loss has occurred. Our 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 mortality and claim termination factors, an assumed interest rate and 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 future policy benefit reserves for the traditional participating life insurance products of our Closed Block Business, which as of December 31, 2014, represented 23% of our total future policy benefit reserves are determined using the net level premium method. Under this method, the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use mortality assumptions to determine our expected future benefits and expected future premiums, and apply an interest rate to determine the present value of both the expected future benefit payments and the expected future premiums. The mortality assumptions are based on standard industry mortality tables that were used to determine the cash surrender value of the policies, and the interest rates used are the interest rates used to calculate the cash surrender value of the policies.

Sensitivity for Future Policy Benefit Reserves

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

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

	December 31, 2014 Increase/(Decrease) in GMDB/GMIB Reserves (in millions)
Decrease in future rate of return by 100 basis points	$ 177
Increase in future rate of return by 100 basis points	$ (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 2014, updates to projected interest rate assumptions, partially offset by refinements to our methodology for applying reversion to the mean, drove the most significant changes to these reserves. For a discussion of adjustments to the reserves for GMDBs and GMIBs for the years ended December 31, 2014, 2013 and 2012, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

For certain living benefit features of the variable annuities in our Individual Annuities segment that are accounted for as embedded derivatives, the changes in reserves are significantly impacted by changes in both the capital markets assumptions and actuarial assumptions. Capital market

inputs and actual policyholders account values are updated each quarter based on capital market conditions as of the end of the quarter, while actuarial assumptions are reviewed at least annually, and updated based upon emerging experience, future expectations

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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 2014, updates to lapse rate assumptions drove the most significant changes to these reserves. Other factors may also drive variability in the change in reserves, particularly when our annual assumption updates are performed. As noted above, however, the impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time. For a discussion of the drivers of the changes in our optional living benefit features for the years ended December 31, 2014, 2013 and 2012, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Unearned revenue reserves

Our unearned revenue reserve (URR), reported as a component of Policyholders account balances, is $1.6 billion as of December 31, 2014. 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, 2014 was $1.3 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, 2014 Increase/(Decrease) in URR (in millions)
Decrease in future mortality by 1%	$ 42
Increase in future mortality by 1%	$ (43)

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 2014, updates to mortality assumptions drove the most significant changes to our URR reserve. For a discussion of the drivers of URR adjustments related to our Individual Life segment for the years ended December 31, 2014, 2013 and 2012, see Results of Operations for Financial Services Businesses by Segment U.S. Individual Life and Group Insurance Division Individual Life.

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

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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.

The Company updated its mortality assumption as of December 31, 2014 with respect to its measure of its domestic pension and postretirement obligations as a result of a review of plan experience following the Society of Actuaries (SOA) final issuance in October 2014 of a study of rates of mortality and expected future improvement in mortality rates for U.S. participants. See Note 18 to the Consolidated Financial Statements for additional information on the effect of this mortality assumption update.

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 2014 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, 2013, 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 basis points higher or 100 basis points 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, 2014	
	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 basis points	$ (111)	$ (17)
Decrease in expected rate of return by 100 basis points	$ 111	$ 17

Foreign pension plans represent 5% of plan assets at the beginning of 2014. An increase in expected rate of return by 100 basis points would result in a decrease in net periodic pension costs of $6 million; conversely, a decrease in expected rate of return by 100 basis points would result in an increase in net periodic pension costs of $6 million.

We determine our discount rate, used to value the pension and postretirement benefit obligations, based upon rates commensurate with current yields on high quality corporate bonds. See Note 18 to our Consolidated Financial Statements for information regarding the December 31, 2013 methodology we employed to determine our discount rate for 2014. Our assumed discount rate for 2014 was 4.95% for our domestic pension plans and 4.75% for our other domestic postretirement benefit plans. Given the amount of pension and postretirement obligations as of December 31, 2013, 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 basis points higher or 100 basis points 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, 2014	
Increase/(Decrease) in Net Periodic	Increase/(Decrease) in Net Periodic Other

	Pension Cost	Postretirement Cost
	(in millions)	
Increase in discount rate by 100 basis points	$ (44)	$ (5)
Decrease in discount rate by 100 basis points	$ 105	$ 3

Foreign pension plans represent 16% of plan obligations at the beginning of 2014. An increase in discount rate by 100 basis points would result in a decrease in net periodic pension costs of $4 million; conversely, a decrease in discount rate by 100 basis points would result in an increase in net periodic pension costs of $5 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 basis points would not be expected to equal the change in net periodic pension cost arising from a decrease in the assumed discount rate by 100 basis points.

For a discussion of our expected rate of return on plan assets and discount rate for our qualified pension plan in 2014, see Results of Operations for Financial Services Businesses by Segment Corporate and Other.

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2015, we will decrease the discount rate to 4.10% from 4.95% in 2014. 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, 2014, the sensitivity of our domestic and international pension and postretirement obligations to a 100 basis point change in discount rate was as follows:

	December 31, 2014	
	Increase/(Decrease) in Pension Benefits Obligation	Increase/(Decrease) in Accumulated Postretirement Benefits Obligation
	(in millions)	
Increase in discount rate by 100 basis points	$ (1,400)	$ (197)
Decrease in discount rate by 100 basis points	$ 1,703	$ 217

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 Company provides for U.S. income taxes on a portion of its unremitted foreign earnings of its operations in Japan, and the unremitted foreign earnings of certain operations in India, Germany, and Taiwan. In addition, beginning in 2012, the Company provides for U.S. income taxes on a portion of current year foreign earnings for its insurance operations in Korea. Unremitted foreign earnings from operations in other foreign jurisdictions are considered to be permanently reinvested.

An increase or decrease in our effective tax rate by one percent of income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures, would have resulted in an increase or decrease in our consolidated income from continuing operations before equity in earnings of operating joint ventures in 2014 of $56 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 2014, 2013 and 2012 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.

Reserves for 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, reserves for contingencies are required to be established when the future event is probable and its impact can be reasonably estimated, such as in connection with an unresolved legal matter. The initial reserve reflects management s best estimate of the probable cost of ultimate resolution of the matter and is revised accordingly as facts and circumstances change and, ultimately, when the matter is brought to closure.

Adoption of New Accounting Pronouncements

There were no new accounting pronouncements adopted during 2014 requiring the application of critical accounting estimates. See Note 2 to the Consolidated Financial Statements for a complete discussion of newly issued accounting pronouncements.

Results of Operations for Financial Services Businesses by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

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

The U.S. GAAP accounting and our adjusted operating income treatment for our guarantees differ depending upon the specific feature. The reserves for our GMDB and GMIB features are calculated based on our best estimate of actuarial and capital markets return assumptions. The risks associated with these benefit features are retained and results are included in adjusted operating income. In contrast, certain of our optional guaranteed living benefit features are accounted for as embedded derivatives and reported at fair value. Under U.S. GAAP, the fair values of these benefit features are based on assumptions a market participant would use in valuing these embedded derivatives. We hedge or limit our

exposure to certain risks associated with these features through our living benefits hedging program and product design features. Adjusted operating income, as discussed below in Adjusted Operating Income and Revenues, Benefits and Expenses excludes amounts related to changes in the market value of the embedded derivatives and related hedge positions, and the related impact to amortization of DAC and other costs. The items excluded from adjusted operating income are discussed below in Variable Annuity Hedging Program Results.

Account Values

Account values are a significant driver of our operating results. Since most fees are determined by the level of separate account assets, fee income varies according to the level of account values. Additionally, our fee income generally drives other items such as our pattern of amortization of DAC and other costs. Account values are driven by net flows from new business sales, the impact of market changes which can be either positive or

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negative, and outflows related to surrenders, withdrawals, benefit payments and contract charges. The annuity industry competitive landscape, which has been dynamic over the last few years, may impact our net flows and new business sales. The following table sets forth account value information for the periods indicated.

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Total Individual Annuities(1):			
Beginning total account value	$ 154,140	$ 135,342	$ 113,535
Sales	10,008	11,513	20,032
Surrenders and withdrawals	(8,852)	(7,727)	(6,806)
Net sales	1,156	3,786	13,226
Benefit payments	(1,799)	(1,617)	(1,450)
Net flows	(643)	2,169	11,776
Change in market value, interest credited and other activity	8,666	19,826	12,710
Policy charges	(3,499)	(3,197)	(2,679)
Ending total account value	$ 158,664	$ 154,140	$ 135,342

(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 $155.1 billion, $150.4 billion and $131.6 billion as of December 31, 2014, 2013 and 2012, respectively. Fixed annuity account values were $3.6 billion, $3.7 billion and $3.7 billion as of December 31, 2014, 2013 and 2012, respectively.

2014 to 2013 Annual Comparison. Our account values are significantly impacted by net sales and the impact of market performance. The increase in account values during 2014 was largely driven by favorable changes in the market value of contractholder funds, primarily reflecting equity market appreciation. Positive net sales also contributed to account value growth, but to a lesser extent, as results for 2014 compared to 2013 reflected a decline in sales coupled with an increase in surrenders and withdrawals. The decline in net sales reflected a decline in sales of our products with the highest daily benefit, partially offset by higher sales of the Prudential Defined Income (PDI) product, and higher surrenders and withdrawals, primarily driven by partial withdrawals from contracts with certain optional living benefit features. Partially offsetting these net increases in account values were higher contract charges on contractholder accounts, primarily reflecting higher average account values.

2013 to 2012 Annual Comparison. The increase in account values during 2013 was largely driven by favorable changes in the market value of contractholder funds, primarily driven by equity market appreciation. Positive net sales also contributed to account value growth, but to a lesser extent, as results for 2013 compared to 2012 reflected a decline in sales coupled with an increase in surrenders and withdrawals. The decline in sales primarily reflected the impacts of adaptations we made to our products in order to maintain appropriate return prospects and improve our risk profile. Partially offsetting these net increases in account values were higher contract charges on contractholder accounts, primarily reflecting higher average account values.

Operating Results

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

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Operating results:			
Revenues	$ 4,710	$ 4,465	$ 3,983
Benefits and expenses	3,243	2,380	2,944
Adjusted operating income	1,467	2,085	1,039
Realized investment gains (losses), net, and related adjustments	521	(5,918)	(1,882)
Related charges	(137)	1,716	942
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,851	$ (2,117)	$ 99

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Adjusted Operating Income

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

The impacts of changes in the estimated profitability of the business include adjustments to the amortization of DAC and other costs and to the reserves for the GMDB and GMIB features of our variable annuity products. These adjustments resulted in a net charge of $129 million and a net benefit of $696 million in 2014 and 2013, respectively. The $129 million net charge in 2014 primarily reflected the impact of lower expected rates of return on fixed income investments within contractholder accounts and on future expected claims relative to our assumptions, which more than offset a net favorable impact from equity market performance. Partially offsetting this net charge was a $14 million net benefit resulting from an annual review and update of assumptions, primarily driven by modifications to our economic and actuarial assumptions. The $696 million net benefit in 2013 included a $301 million net benefit resulting from the annual review and update of assumptions and other refinements performed in that year. The remaining net benefit reflected the impact of positive market performance on contractholder accounts relative to our assumptions.

2013 to 2012 Annual Comparison. Adjusted operating income increased $1,046 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased $431 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 and reserve provisions. Also contributing to the increase were reduced costs to support business initiatives and the absence of a charge related to an impairment of capitalized software costs in the fourth quarter of 2012.

The impacts of changes in the estimated profitability of the business include adjustments to the amortization of DAC and other costs and to the reserves for the GMDB and GMIB features of our variable annuity products. These adjustments resulted in net benefits of $696 million and $81 million in 2013 and 2012, respectively. The $696 million net benefit in 2013 included a $301 million net benefit resulting from the annual review and update of assumptions and other refinements performed in that period. The remaining net benefit reflected the impact of positive market performance on contractholder accounts relative to our assumptions. The $81 million net benefit in 2012 reflected the impact of positive market performance on customer accounts relative to our assumptions, which more than offset a $106 million net charge resulting from the annual reviews and updates of assumptions performed in that period.

Revenues, Benefits and Expenses

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

Benefits and expenses, as shown in the table above under Operating Results, increased $863 million. Absent the $825 million net increase related to the impacts of certain changes in our estimated profitability of the business discussed above, benefits and expenses increased $38

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

2013 to 2012 Annual Comparison. Revenues increased $482 million, primarily driven by a $553 million increase in policy charges and fee income, asset management and service fees and other income, due to growth in average variable annuity account values. Partially offsetting this increase was a $77 million decline in net investment income, driven by lower average account values in the general account due to surrenders of legacy general account products and net transfers from the general account to the separate accounts.

Benefits and expenses decreased $564 million. Absent the $615 million net decrease related to the impacts of certain changes in our estimated profitability of the business discussed above, benefits and expenses increased $51 million. General and administrative expenses, net of capitalization, increased $84 million, driven by higher asset-based commissions and asset management costs due to account value growth, partially offset by reduced costs to support business initiatives. Insurance and annuity benefits increased $28 million, driven by higher revenues used in determining reserve provisions, related to the increase in fee income discussed above. These increases were partially offset by a $52 million decline in interest credited to policyholders account balances driven by lower average account values in the general account, 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, and actuarial assumptions, such as contractholder longevity/mortality, the timing and amount of annuitization and withdrawals, and contract lapses. For our actuarial assumptions, we have retained the risk that actual experience will differ from the assumptions used in the original pricing of these products. For our capital markets assumptions, we hedge or limit our exposure to the risk created by capital markets fluctuations through a combination of product design features, such as an automatic rebalancing feature, also referred to as an asset transfer feature, and inclusion of certain optional living benefits in our hedging program.

Our automatic rebalancing feature occurs at the contract level, and transfers assets between certain variable investment sub-accounts selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond fund sub-account within the separate accounts. The automatic rebalancing feature associated with currently-sold highest daily benefit products uses a designated bond fund sub-account within the separate accounts. The transfers are based on the 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 help mitigate our exposure to equity market risk and market volatility. Other product design features we utilize include, among others, asset allocation restrictions, minimum issuance age requirements and certain limitations on the amount of contractholder deposits, as well as required allocation to our general account for certain of our products. We have also introduced new products that diversify our risk profile and incorporate provisions in product design allowing frequent revisions of key pricing elements. In addition, certain fees are based on the greater of a benefit guarantee amount or the contractholder account value, which helps preserve certain revenue streams when market fluctuations cause account values to decline.

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

For our optional living benefits features, claims will primarily represent the funding of contractholder lifetime withdrawals after the cumulative withdrawals have first exhausted the contractholder account value. Due to the age of the 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 actual future claims depend on actual returns on contractholder account value and actual contractholder behavior relative to our assumptions. The majority of our current optional living benefits features provide for guaranteed lifetime

contractholder withdrawal payments inclusive of a highest daily contract value. In the first quarter of 2013, we launched our PDI variable annuity, to complement our variable annuity products with the highest daily benefit. PDI provides for guaranteed lifetime contractholder withdrawal payments, but restricts contractholder asset allocation to a single bond fund sub-account within the separate account.

The majority of our variable annuity contracts with optional living benefits features, and all new contracts sold with our highest daily living benefits feature, include two risk mitigants in the form of an automatic rebalancing feature and inclusion in our hedging program. The guaranteed benefits of certain legacy products that were sold prior to our implementation of the automatic rebalancing feature are also included in our hedging program. Certain legacy guaranteed minimum accumulation benefit (GMAB) products include the automatic rebalancing feature, but are not included in the hedging program. The PDI product and contracts with the GMIB feature have neither risk mitigant. Rather than utilizing a capital markets hedging replication-based strategy, certain risks associated with PDI are managed through the limitation of contractholder asset allocations to single bond fund sub-account and through an asset/liability duration management strategy.

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

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

	December 31,					
	2014		2013		2012	
	Account Value	% of Total	Account Value	% of Total	Account Value	% of Total
			(in millions)			
Living benefit/GMDB features(1):						
Both risk mitigants(2)	$ 110,953	72%	$ 105,630	71%	$ 89,167	68%
Hedging program only	11,395	7%	12,229	8%	11,744	9%
Automatic rebalancing only	1,771	1%	2,280	2%	2,787	2%
Neither risk mitigant-PDI	2,777	2%	793	0%	0	0%
Neither risk mitigant-Other Products	3,324	2%	3,666	3%	3,556	3%
Total living benefit/GMDB features	$ 130,220		$ 124,598		$ 107,254	
GMDB features only(3):						
Neither risk mitigant	24,863	16%	25,869	16%	24,354	18%
Total variable annuity account value	$ 155,083		$ 150,467		$ 131,608	

(1) All contracts with living benefit guarantees also contain GMDB features, covering the same insured life.
(2) Contracts with both risk mitigants have optional living benefits that are included in our living benefits hedging program, and have an automatic rebalancing feature.
(3) Reflects contracts that only include a GMDB feature and do not have an automatic rebalancing feature.

For contracts with living benefit/GMDB features, the increase in account values that include both risk mitigants as of December 31, 2014 compared to the prior periods primarily reflects sales of our latest product offerings with our highest daily optional living benefits feature, as well as market appreciation. The net increase in account values related to contracts with neither risk mitigant was driven by sales of our PDI product.

Variable Annuity Hedging Program Results

Under U.S. GAAP, the liability for certain optional living benefit features is accounted for as an embedded derivative and recorded at fair value, based on assumptions a market participant would use in valuing these

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features. The fair value is calculated as the present value of future expected benefit payments to contractholders less the present value of assessed rider fees attributable to the applicable living benefit features using option pricing techniques. See Note 20 to the Consolidated Financial Statements for additional information regarding the methodology and assumptions used in calculating the fair value under U.S. GAAP.

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

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

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

	As of December 31,	
	2014	2013
	(in billions)	
Embedded derivative liability as defined by U.S. GAAP	$ 8.1	$ 0.5
Less: NPR Adjustment	(6.7)	(2.2)
Embedded derivative liability as defined by U.S. GAAP, excluding NPR	14.8	2.7
Less: Amount of embedded derivative liability, excluding NPR, excluded from hedge target liability	6.1	3.9
Hedge target liability/(contra-liability)	$ 8.7	$ (1.2)

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

	As of December 31, 2014				As of December 31, 2013			
	Equity		Interest Rate		Equity		Interest Rate	
Instrument	Notional	Market Value	Notional	Market Value	Notional	Market Value	Notional	Market Value

			(in billions)					
Futures	$ 0.2	$ 0.0	$ 0.0	$ 0.0	$ 0.2	$ 0.0	$ 0.0	$ 0.0
Swaps(1)	14.5	(0.4)	87.7	5.1	11.1	(0.5)	72.2	(2.8)
Options	10.4	0.4	25.5	0.5	7.1	0.4	23.6	0.1
Total	$ 25.1	$ 0.0	$ 113.2	$ 5.6	$ 18.4	$ (0.1)	$ 95.8	$ (2.7)

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

Due to cash flow timing differences between our hedging instruments and the corresponding hedge target, as well as other factors such as updates to actuarial assumptions which are not hedged, the market value of the hedge portfolio compared to our hedge target measured as of any specific point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held as part of the hedging program, we have cash and other invested assets available to cover the future claims payable under these guarantees and other liabilities. For additional information on the liquidity needs associated with our hedging program, see Liquidity and Capital Resources Liquidity Liquidity associated with other activities Hedging activities associated with living benefit guarantees.

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

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

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

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

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

	Year ended December 31,		
	2014	2013 (1)	2012
		(in millions)	
Hedge Program Results:			
Change in fair value of hedge positions	$ 7,209	$ (9,465)	$ (2,737)
Change in value of hedge target(2)	(7,630)	9,234	3,480
Net hedging impact(2)(3)	(421)	(231)	743
Reconciliation of Hedge Program Results to U.S. GAAP Results:			
Net hedging impact (from above)	$ (421)	$ (231)	$ 743
Change in portions of U.S. GAAP liability, before NPR, excluded from hedge target(2)(4)	(1,997)	902	(817)
Change in the NPR adjustment(2)	3,824	(4,333)	(1,810)
Subtotal	1,406	(3,662)	(1,884)
Related benefit/(charge) to amortization of DAC and other costs(2)	(496)	1,161	968

Net impact of assumption updates and other refinements(5)	(631)	(1,533)	(46)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs(3)	$ 279	$ (4,034)	$ (962)

(1) Positive amount represents income; negative amount represents a loss.
(2) Excludes the impacts of assumption updates and other refinements.
(3) Excludes $(3,036) million, $1,603 million and $101 million in 2014, 2013 and 2012, respectively, representing the impact of managing interest rate risk through capital management strategies other than hedging of particular exposures. Because this decision is based on the capital considerations of the Company as a whole, the impact is reported in Corporate and Other operations. See Corporate and Other.

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(4) Represents the impact attributable to the difference between the value of the hedge target and the value of the embedded derivative as defined by U.S. GAAP, before adjusting for NPR, as discussed above.
(5) Represents the total U.S. GAAP impact of assumption updates and other refinements on our hedge target, net of related changes in the NPR adjustment, related changes in amounts attributable to the difference between the value of the hedge target and the value of the embedded derivative as defined by U.S. GAAP, and related amortization of DAC and other costs.

The net hedging charge of $421 million for 2014 was primarily driven by fund underperformance relative to indices and unfavorable liability basis. The net benefit from the change in the NPR adjustment of $3,824 million was driven by net increases in the base embedded derivative liability before NPR, primarily due to declining interest rates. Each of these items resulted in partial offsets included in the 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. Included within the results above is a net charge of $35 million related to prior periods. See Note 1 to the Consolidated Financial Statements for additional information.

The net hedging charge of $231 million for 2013 was primarily driven by fund underperformance relative to indices and an unfavorable net market impact, partially offset by favorable liability basis. The net charge from the change in the NPR adjustment of $4,333 million was driven by net decreases in the base embedded derivative liability before NPR, primarily reflecting the impact of favorable capital markets conditions, as well as tightening of our NPR credit spreads. Each of these items resulted in partial offsets included in the related benefit to the amortization of DAC and other costs. The net charge from the impact of assumption updates and other refinements of $1,533 million was primarily driven by modifications to our lapse rate assumptions to reflect our review of emerging experience, future expectations and other data, and other refinements. These updates increased expected claims significantly more than expected fees, which increased our net liability.

The net hedging benefit of $743 million for 2012 was primarily driven by fund outperformance relative to indices. The net charge from the change in the NPR adjustment of $1,810 million for 2012 was driven by the tightening of our NPR credit spreads. Each of these items resulted in partial offsets included in the related benefit to the amortization of DAC and other costs. The net charge from the impact of assumption updates and other refinements of $46 million for 2012 was primarily driven by modifications to our lapse, mortality and utilization rate assumptions to reflect our review of emerging experience, future expectations and other data.

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

Retirement

Operating Results

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

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Operating results:			
Revenues	$ 12,077	$ 6,028	$ 36,595

Benefits and expenses	10,862	4,989	35,957
Adjusted operating income	1,215	1,039	638
Realized investment gains (losses), net, and related adjustments	591	(1,489)	(171)
Related charges	(4)	1	(1)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	151	(718)	406
Change in experience-rated contractholder liabilities due to asset value changes	(106)	695	(336)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,847	$ (472)	$ 536

Adjusted Operating Income

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

Results also included an unfavorable comparative impact from our annual reviews and updates of assumptions, which resulted in net charges of $13 million and $4 million for the third quarter of 2014 and 2013, respectively, related to adjustments to the amortization of DAC, VOBA and reserves on our products. The net charge in the third quarter of 2014 was driven by unfavorable updates to actuarial and economic assumptions, while the net charge in the third quarter of 2013 was driven by unfavorable updates to actuarial assumptions, partially offset by favorable updates to economic assumptions.

2013 to 2012 Annual Comparison. Adjusted operating income increased $401 million. The increase was primarily driven by higher net investment spread results, a more favorable reserve impact from case experience and higher fee income. The increase in net investment spread results reflected higher income on institutional investment products account values, driven by significant pension risk transfer transactions that closed in the fourth quarter of 2012 and higher income from non-coupon investments. The more favorable reserve impact from case experience reflected the impact of favorable mortality related to the pension risk transfer contracts. Higher fee income was driven by net additions of investment-only stable value account values and increases in full service account values primarily from market appreciation. These net increases were partially offset by higher general and administrative expenses, net of capitalization, primarily driven by higher compensation costs.

Results also included a favorable comparative impact from our annual reviews and updates of assumptions, which resulted in net charges of $4 million and $13 million for the third quarter of 2013 and 2012, respectively. Additionally, results for the year ended 2012 included $78 million related to a legal settlement, partially offset by a $29 million charge for the write off of an intangible asset on a business we acquired in 2008.

Revenues, Benefits and Expenses

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

Benefits and expenses, as shown in the table above under Operating Results, increased $5,873 million. Policyholders benefits, including the change in policy reserves, increased $5,878 million, primarily reflecting the increase in premiums discussed above. Absent this increase and the net increase from the annual reviews and updates of assumptions discussed above, benefits and expenses decreased $15 million. Interest credited to policyholders account balances decreased $53 million, primarily reflecting the impact of crediting rate reductions on full service general account stable value account values. Partially offsetting this decrease was a $30 million increase in general and administrative expenses, net of capitalization, primarily driven by an unfavorable comparative adjustment to the amortization of VOBA, and higher costs to support corporate

initiatives and higher compensation costs. In addition, the amortization of DAC increased $10 million reflecting amortization primarily related to the significant pension risk transfer transactions that closed in the fourth quarter of 2014, which is offset above in policyholders benefits, including the change in policy reserves.

2013 to 2012 Annual Comparison. Revenues decreased $30,567 million. Premiums decreased $31,502 million primarily driven by significant pension risk transfer transactions that closed in the fourth quarter of 2012. Net investment income increased $864 million primarily reflecting higher income on institutional investment products account values, driven by the significant pension risk transfer transactions and higher income on non-coupon investments, partially offset by lower portfolio yields on full service general account stable value account values. Policy charges and fee income, asset management and service fees and other income increased $71 million, primarily from higher fee income driven by net additions of investment-only stable value account values and market appreciation of full service account values.

Benefits and expenses decreased $30,968 million. Policyholders benefits, including the change in policy reserves, decreased $30,870 million, primarily driven by reserves recorded upon the closing of the significant pension risk transfer transactions in the fourth quarter of 2012. Absent this decrease and the net increase from the annual reviews and updates of assumptions and certain other items, as discussed above, benefits and expenses decreased $138 million. Interest credited to policyholders account balances decreased $166 million reflecting the runoff of traditional guaranteed investment products in our institutional investment products business and the impact of crediting rate reductions on full service general account stable value account values. The amortization of DAC decreased $23 million, reflecting amortization related to the significant pension risk transfer transactions that closed in the fourth quarter of 2012. Partially offsetting these decreases was a $45 million increase in general and administrative expenses, net of capitalization driven primarily by higher compensation costs.

Account Values

Our account values are a significant driver of our operating results, and are primarily driven by net additions (withdrawals) and the impact of market changes. The income we earn on our fee-based products varies with the level of fee-based account values, since many policy fees are determined by these values. The investment income and interest we credit to policyholders on our spread-based products varies with the level of general account values. To a lesser extent, changes in account values impact our pattern of amortization of DAC and VOBA, and general and administrative expenses. The following table shows the changes in the account values and net additions (withdrawals) of Retirement segment products for the periods indicated. Net additions (withdrawals) are plan sales and participant deposits or additions, as applicable, minus plan and participant withdrawals and benefits. Account values include both internally- and externally-managed client balances as the total balances drive revenue for the Retirement segment. For more information on internally-managed balances see Asset Management.

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Full Service:			
Beginning total account value	$ 173,502	$ 148,405	$ 139,430
Deposits and sales	23,934	20,677	16,390
Withdrawals and benefits	(22,601)	(18,711)	(19,223)
Change in market value, interest credited and interest income and other activity	9,361	23,131	11,808
Ending total account value	$ 184,196	$ 173,502	$ 148,405
Net additions (withdrawals)	$ 1,333	$ 1,966	$ (2,833)
Institutional Investment Products:			
Beginning total account value	$ 149,402	$ 141,435	$ 90,089
Additions	43,293	17,294	55,005

Withdrawals and benefits	(16,036)	(9,951)	(8,495)
Change in market value, interest credited and interest income(1)	5,833	1,081	4,687
Other(1)(2)	(2,851)	(457)	149
Ending total account value	$ 179,641	$ 149,402	$ 141,435
Net additions	$ 27,257	$ 7,343	$ 46,510

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

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

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

2013 to 2012 Annual Comparison. The increase in full service account values primarily reflects the impact of equity market appreciation in 2013 on the market value of customer funds. The increase in net additions (withdrawals) was primarily driven by a higher volume of large plan sales and a lower volume of large plan lapses.

The increase in institutional investment products account values is primarily driven by net additions of our fee-based investment-only stable value product partially offset by decreases in account values due to scheduled withdrawals and benefit payments. The decrease in net additions was driven by the significant pension risk transfer transactions, discussed above, as well as lower sales of our investment-only stable value product primarily driven by existing intermediary relationships reaching saturation levels and increased competition in the marketplace.

Asset Management

Operating Results

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

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Operating results:			
Revenues	$ 2,840	$ 2,678	$ 2,376
Expenses	2,055	1,955	1,792
Adjusted operating income	785	723	584
Realized investment gains (losses), net, and related adjustments	(10)	(6)	(47)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	41	90	40

Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 816	$ 807	$ 577

Adjusted Operating Income

2014 to 2013 Annual Comparison. Adjusted operating income increased $62 million. The increase primarily reflected higher asset management fees, net of expenses, as a result of higher assets under management due to market appreciation and positive net asset flows. The increase also reflected higher performance-based incentive fees, net of expenses, primarily related to certain fixed income funds, partially offset by lower commercial mortgage results, driven by the continued run off of the interim loan portfolio.

2013 to 2012 Annual Comparison. Adjusted operating income increased $139 million. The increase reflected higher asset management fees, net of expenses, as a result of higher assets under management due to

market appreciation and positive net asset flows. Also contributing to the increase were improved strategic investing results driven by the absence of $69 million of losses incurred in 2012 associated with two real estate investments, partially offset by a lower contribution from the segment s commercial mortgage activities.

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,		
	2014	2013	2012
		(in millions)	
Revenues by type:			
Asset management fees by source:			
Institutional customers	$ 877	$ 838	$ 775
Retail customers(1)	720	631	509
General account	424	412	383
Total asset management fees	2,021	1,881	1,667
Incentive fees	91	62	48
Transaction fees	26	25	40
Strategic investing	45	52	(12)
Commercial mortgage(2)	100	115	164
Other related revenues(3)	262	254	240
Service, distribution and other revenues(4)	557	543	469
Total revenues	$ 2,840	$ 2,678	$ 2,376

(1) Consists of fees from: (a) individual mutual funds and variable annuities and variable life insurance separate account assets; (b) funds invested in proprietary mutual funds through our defined contribution plan products; and (c) third-party sub-advisory relationships. Revenues from fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance are included in the general account.
(2) Includes mortgage origination and spread lending revenues of our commercial mortgage origination and servicing business.
(3) Future revenues will be impacted by the level and diversification of our strategic investments, the commercial real estate market, and other domestic and international markets.
(4) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004, implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was $77 million in 2014, $75 million in 2013 and $66 million in 2012.

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

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

2013 to 2012 Annual Comparison. Revenues increased $302 million. Asset management fees increased $214 million, driven by higher average asset values due to positive net flows and market appreciation. Service, distribution and other revenues increased $74 million, driven by higher revenues from certain consolidated funds, which were fully offset by higher expenses related to noncontrolling interests in these funds, as well as higher servicing fee income from our commercial mortgage business. Strategic investing revenues increased $64 million, as 2012 included $69 million of losses associated with two real estate investments. Performance-based incentive fee revenues increased $14 million, driven by outperformance within public equity accounts in 2013.

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These increases were partially offset by lower commercial mortgage revenues of $49 million, driven by lower production and profitability levels, the runoff of the interim loan portfolio, and lower investment gains due to the disposition of real estate owned assets in 2012. Transaction fees decreased $15 million, driven by declining acquisition and disposition volumes in certain real estate portfolios.

Expenses, as shown in the table above under Operating Results, increased $163 million primarily driven by higher compensation costs and higher expenses related to revenues associated with certain consolidated funds.

Assets Under Management

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

	December 31, 2014	December 31, 2013 (in billions)	December 31, 2012
Assets Under Management (at fair market value):			
Institutional customers:			
Equity	$ 63.8	$ 63.4	$ 51.7
Fixed income	270.0	243.8	230.8
Real estate	36.2	34.5	31.2
Institutional customers(1)	370.0	341.7	313.7
Retail customers:			
Equity	122.8	117.0	86.6
Fixed income	61.0	51.5	50.3
Real estate	2.3	2.2	1.8
Retail customers(2)	186.1	170.7	138.7
General account:			
Equity	7.7	8.9	9.4
Fixed income	368.1	347.2	363.7
Real estate	1.6	1.4	1.5
General account	377.4	357.5	374.6
Total assets under management	$ 933.5	$ 869.9	$ 827.0

(1) Consists of third party institutional assets and group insurance contracts.
(2) Consists of: (a) individual mutual funds and variable annuities and variable life insurance separate account assets; (b) funds invested in proprietary mutual funds through our defined contribution plan products; and (c) 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.

	December 31, 2014	December 31, 2013	December 31, 2012
	(in billions)		
Institutional Customers:			
Beginning Assets Under Management	$ 341.7	$ 313.7	$ 271.8
Net additions (withdrawals), excluding money market activity:			
Third party	0.7	19.4	17.2
Affiliated	1.8	(0.4)	(1.5)
Total	2.5	19.0	15.7
Market appreciation	26.9	10.3	26.2
Other increases (decreases)(1)	(1.1)	(1.3)	0.0
Ending Assets Under Management	$ 370.0	$ 341.7	$ 313.7
Retail Customers:			
Beginning Assets Under Management	$ 170.7	$ 138.7	$ 119.3
Net additions (withdrawals), excluding money market activity:			
Third party	4.7	4.4	12.8
Affiliated	(0.5)	1.6	(6.2)
Total	4.2	6.0	6.6
Market appreciation	11.6	26.7	13.4
Other increases (decreases)(1)	(0.4)	(0.7)	(0.6)
Ending Assets Under Management	$ 186.1	$ 170.7	$ 138.7
General Account:			
Beginning Assets Under Management	$ 357.5	$ 374.6	$ 326.7
Net additions (withdrawals), excluding money market activity:			
Third party	0.0	0.0	0.0
Affiliated(2)	3.9	7.4	37.6
Total	3.9	7.4	37.6
Market appreciation	25.8	(2.8)	15.3
Other increases (decreases)(1)	(9.8)	(21.7)	(5.0)
Ending Assets Under Management	$ 377.4	$ 357.5	$ 374.6

(1) Includes the effect of foreign exchange rate changes, net money market activity and transfers (to)/from the Retirement segment as a result of changes in the client contract form. The impact from foreign currency fluctuations, which primarily impact the general account, resulted in losses of $13.9 billion, $21.0 billion and $7.9 billion for the years ended December 31, 2014, 2013 and 2012, 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, net additions of $7.9 billion for the year ended December 31, 2013 from the acquisition of the Hartford Life Business on January 2, 2013 and $31.0 billion from two significant pension risk transfer transactions in the Retirement segment for the year ended December 31, 2012.

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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,	
	2014	2013
	(in millions)	
Co-Investments:		
Real estate	$ 277	$ 342
Fixed income	112	108
Seed Investments:		
Real estate	32	30
Public equity	268	224
Fixed income	210	158
Total	$ 899	$ 862

The $37 million increase in strategic investments was primarily driven by seed investments in newly launched fixed income and public equity funds, partially offset by decreases in real estate co-investments.

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,		
	2014	2013	2012
		(in millions)	
Operating results:			
Revenues	$ 5,226	$ 4,620	$ 3,367
Benefits and expenses	4,728	4,037	2,983
Adjusted operating income	498	583	384
Realized investment gains (losses), net, and related adjustments	1,092	(724)	(38)
Related charges	(341)	286	0
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,249	$ 145	$ 346

On January 2, 2013, we acquired The Hartford s individual life insurance business (the Hartford Life Business) through a reinsurance transaction. We have incurred approximately $93 million of the total expected pre-tax integration costs of approximately $120 million, inclusive of capitalized expenses, including approximately $33 million during 2014. After integration is complete, we expect annual cost savings of approximately $90 million and, as of December 31, 2014, we have achieved approximately 75% of this annual savings on a run rate basis. Actual integration costs may exceed, and actual cost savings may fall short of, such expectations.

Adjusted Operating Income

2014 to 2013 Annual Comparison. Adjusted operating income decreased $85 million, including an unfavorable comparative impact from our annual reviews and updates of assumptions and other refinements. These impacts resulted in a $63 million net charge in 2014 driven by unfavorable updates to economic assumptions, compared to a $27 million net benefit in 2013 driven by favorable updates to actuarial assumptions. In addition, the current year included $32 million of costs, net of capitalized expenses, associated with the integration of The Hartford Life Business, while the prior year included $51 million of such costs.

Absent the effect of the items discussed above, adjusted operating income decreased $13 million primarily driven by unfavorable reserve updates for guaranteed minimum death benefits and an expected unfavorable impact from unaffiliated reserve financing to support business growth. These impacts were partially offset by a higher net contribution from investment results, due to higher invested assets to support business growth and required capital and higher income from non-coupon investments, more favorable mortality experience, net of reinsurance and the impact of cost savings associated with The Hartford Life Business integration.

2013 to 2012 Annual Comparison. Adjusted operating income increased $199 million, primarily reflecting a favorable comparative impact from our annual reviews and updates of assumptions and other refinements. These impacts resulted in a $27 million net benefit in 2013 driven by favorable updates to actuarial assumptions, compared to a $27 million net charge in 2012 driven by unfavorable updates to economic assumptions. In addition, 2013 also included $51 million of integration costs associated with the Hartford Life Business acquisition compared to $20 million of transaction and other costs in 2012.

Absent the effect of the items discussed above, adjusted operating income increased $176 million driven by approximately $157 million of earnings from the acquired in force business and a favorable $77 million mortality variance. Mortality experience, net of reinsurance, was favorable relative to expected levels in 2013, compared to unfavorable in 2012. These favorable items were partially offset by higher distribution costs reflecting expanded third party distribution and increased sales, higher compensation expenses, and lower net investment spread results driven by lower reinvestment rates, partially mitigated by higher income from non-coupon investments.

Revenues, Benefits and Expenses

2014 to 2013 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $606 million. Absent the impact from our annual reviews and updates of assumptions and other refinements, as discussed above, revenues increased $524 million. Policy charges and fees and asset management and service fees and other income increased $272 million, driven by growth in our universal life insurance business, an increase in the amortization of unearned revenue reserves including the impact of changes in the estimated profitability of the business due to market performance and other experience relative to our assumptions, and increased affiliated reserve financing, which is offset by higher interest expense, as discussed below. Net investment income increased $214 million, reflecting higher invested assets resulting from business growth, required capital and increased unaffiliated reserve financing, which was offset by higher interest expense, as discussed below, as well as higher income from non-coupon investments.

Benefits and expenses, as shown in the table above under Operating Results, increased $691 million. Absent the impact of our annual reviews and updates of assumptions and other refinements, as well as integration costs, discussed above, benefits and expenses increased $536 million. Policyholders benefits, including interest credited to account balances, increased $218 million, primarily reflecting universal life insurance business growth, and unfavorable reserve updates for guaranteed minimum death benefits, partially offset by more favorable mortality experience, net of reinsurance. Interest expense increased $125 million related to financing transactions with offsets in revenue, as discussed above. The amortization of DAC increased $132 million including the impact of changes in the estimated profitability of the business due to market performance and other experience relative to our assumptions.

2013 to 2012 Annual Comparison. Revenues increased $1,253 million. Absent the impact from our annual reviews and updates of assumptions and other refinements discussed above, revenues increased $1,519 million. Policy charges and fees and asset management and service fees and other income increased $1,061 million primarily driven by business growth, particularly from our universal life insurance business, including the impact from the Hartford Life Business acquisition, partially offset by the continued expected run-off of variable life insurance in force. Net investment income increased $373 million reflecting business growth, including the impact of higher asset balances from the Hartford Life Business acquisition, and more favorable results from non-coupon investments, partially offset by the impact of lower reinvestment rates.

Benefits and expenses increased $1,054 million. Absent the impact of our annual reviews and updates of assumptions and other refinements, benefits and expenses increased $1,374 million. Policyholders benefits, including interest credited to account balances, increased $930 million primarily due to growth of our universal life block of business, including the impact of insurance liabilities from the Hartford Life Business acquisition,

partly offset by more favorable mortality experience, as discussed above. General and administrative expenses, net of capitalization, increased $348 million, primarily driven by Hartford Life Business operating expenses and integration costs, as well as higher distribution costs and compensation expenses.

Sales Results

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

	2014			2013			2012		
	Prudential Agents	**Third Party**	**Total**	**Prudential Agents**	**Third Party**	**Total**	**Prudential Agents**	**Third Party**	**Total**
					(in millions)				
Variable Life	$ 21	$ 31	$ 52	$ 16	$ 22	$ 38	$ 13	$ 8	$ 21
Universal Life(1)	41	178	219	40	457	497	38	180	218
Term Life	36	145	181	39	157	196	39	134	173
Total	$ 98	$ 354	$ 452	$ 95	$ 636	$ 731	$ 90	$ 322	$ 412

(1) Single pay life annualized new business premiums, which include 10% of excess (unscheduled) premiums, represented approximately 10%, 33% and 32% of Universal Life annualized new business premiums for the years ended December 31, 2014, 2013 and 2012, respectively.

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

2013 to 2012 Annual Comparison. Annualized new business premiums increased $319 million, primarily driven by an increase in sales of universal life insurance products due to expanded distribution as a result of the acquisition of the Hartford Life Business, as well as changes in the competitive positioning of our products. Most of the universal life sales increase was from products with secondary guarantees.

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,		
	2014	2013	2012
		(in millions)	
Operating results:			
Revenues	$ 5,357	$ 5,518	$ 5,601
Benefits and expenses	5,334	5,361	5,585
Adjusted operating income	23	157	16
Realized investment gains (losses), net, and related adjustments	66	(24)	(8)
Related charges	(5)	(5)	0
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 84	$ 128	$ 8
Benefits ratio(1):			
Group life(2)	89.3%	88.5%	90.9%
Group disability(2)	99.8%	92.8%	98.1%
Administrative operating expense ratio(3):			
Group life	11.1%	10.1%	10.0%
Group disability	30.2%	26.6%	25.3%

(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 and group disability benefits ratios were 89.2% and 87.0% for 2014, respectively, 89.5% and 93.9% for 2013, respectively, and 90.9% and 98.9% for 2012, respectively.
(3) Ratio of general and administrative expenses (excluding commissions) to gross premiums plus policy charges and fee income.

Adjusted Operating Income

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

2013 to 2012 Annual Comparison. Adjusted operating income increased $141 million reflecting a greater benefit from the impacts of our annual reviews and updates of assumptions and other refinements. Results for 2013 included a $45 million net benefit from these updates, reflecting favorable updates to actuarial assumptions and other refinements used in calculating both group life and group disability reserves, compared to a $7 million net benefit from these updates in 2012. Excluding these impacts, adjusted operating income increased $103 million primarily driven by more favorable underwriting results in both our group life and group disability businesses. The more favorable underwriting results for the group life business reflected lower claim severity for non-experience-rated contracts, partly due to adverse claim severity that occurred in the first quarter of 2012. The more favorable underwriting results for the group disability business reflected higher claim resolutions and reduced claim incidence for long-term disability contracts. Our general and administrative expenses were essentially flat, as higher compensation costs and other costs to support business initiatives were offset by lower expenses associated with updates to premium tax estimates, as well as the absence of costs related to an increase in legal reserves and other costs in 2012.

Revenues, Benefits and Expenses

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

Benefits and expenses, as shown in the table above under Operating Results, decreased $27 million. Excluding an increase of $203 million resulting from the impacts of our annual reviews and updates of assumptions and other refinements, as discussed above, benefits and expenses decreased $230 million primarily reflecting a $287 million decrease in policyholders benefits, including the change in reserves, for both our group life and group disability businesses. The decrease for both businesses included reduced claim incidence, reflecting lapses. The decline in our group life business also reflected a lower level of claims for experience-rated contracts. The decline in our disability business also reflected higher claim resolutions, partially offset by higher claim severity for long-term contracts. Partially offsetting these decreases was an increase of $41 million in general and administrative expenses, including higher compensation costs, costs associated with our claims management process, and other costs to support business initiatives.

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2013 to 2012 Annual Comparison. Revenues decreased $83 million. Excluding a decrease of $44 million resulting from the impacts of our annual reviews and updates of assumptions and other refinements discussed above, revenues decreased $39 million. The decrease reflected $50 million lower premiums and policy charges and fee income in both our group life and group disability businesses. For our group life business, the decline reflected a decrease from lapses of non-experience-rated contracts, partially offset by an increase from experience-rated contracts primarily driven by unfavorable claim experience. For our disability business, the decline was driven by our enhanced pricing discipline.

Benefits and expenses decreased $224 million. Excluding a decrease of $82 million resulting from the impacts of our annual reviews and updates of assumptions and other refinements discussed above, benefits and expenses decreased $142 million. Policyholders benefits, including the change in reserves, decreased $147 million, driven by declines for both our group life and group disability businesses. The decline in our group life business reflected lower claim severity and increased lapses for non- experience-rated contracts, partially offset by an increase from experience-rated contracts, driven by unfavorable claim experience. The decline in our group disability business reflected higher claim resolutions and reduced claim incidence for long-term contracts. Our general and administrative expenses were essentially flat, as higher compensation costs and other costs to support business initiatives were offset by lower expenses associated with updates to premium tax estimates, as well as the absence of costs related to an increase in legal reserves and other costs in 2012.

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,		
	2014	2013	2012
		(in millions)	
Annualized new business premiums(1):			
Group life	$ 189	$ 240	$ 304
Group disability	67	73	135
Total	$ 256	$ 313	$ 439

(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.

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

2013 to 2012 Annual Comparison. Total annualized new business premiums decreased $126 million primarily driven by enhancements in our pricing discipline for both group life and group disability products.

International Insurance Division

Foreign Currency Exchange Rate Movements and Related Hedging Strategies

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are subject to foreign currency exchange rate movements that could impact our U.S. dollar-equivalent shareholder return on equity. We seek to mitigate this impact through various hedging strategies, including the use of derivative contracts and by holding U.S. dollar-denominated assets in certain of our foreign subsidiaries.

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

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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 have implemented a new reporting structure in Gibraltar Life that disaggregates the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The new structure will be effective for financial reporting beginning in the first quarter of 2015.

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

We utilize a yen hedging strategy that calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company s overall return on equity on a leverage neutral basis. We implement this hedging strategy utilizing a variety of instruments, including foreign currency derivative contracts, as discussed above, as well as U.S. dollar-denominated assets and, to a lesser extent, dual currency and synthetic dual currency assets held locally in our Japanese insurance subsidiaries. We may also hedge using instruments held in our U.S. domiciled entities, such as U.S. dollar-denominated debt that has been swapped to yen. The total hedge level may vary based on our periodic assessment of the relative contribution of our yen-based business to the Company s overall return on equity.

The table below presents the aggregate amount of instruments that serve to hedge the impact of foreign currency exchange movements on our U.S. dollar-equivalent shareholder return on equity from our Japanese insurance subsidiaries for the periods indicated.

	December 31,	
	2014	2013
	(in billions)	
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent earnings:		
Forward currency hedging program(1)	$ 2.0	$ 2.7
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	12.2	8.1
Held-to-maturity U.S. dollar-denominated investments, at amortized cost	0.1	0.2
Other	0.1	0.1
Subtotal	12.4	8.4
Yen-denominated liabilities held in U.S. dollar-based entities(3)	0.8	0.8
Dual currency and synthetic dual currency investments(4)	0.8	0.9
Total instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity	14.0	10.1
Total hedges	$ 16.0	$ 12.8

(1) Represents the notional amount of forward currency contracts outstanding.
(2) Excludes $29.1 billion and $27.6 billion as of December 31, 2014 and 2013, respectively, of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations.
(3) The yen-denominated liabilities are reported in Corporate and Other operations.
(4) Dual currency and synthetic dual currency investments are held by our yen-based entities in the form of fixed maturities and loans with a yen-denominated principal component and U.S. dollar-denominated interest income. The amounts shown represent the present value of future U.S. dollar cash flows.

The U.S. dollar-denominated investments that hedge the U.S. dollar-equivalent shareholder return on equity from our Japanese insurance operations are recorded on the books of yen-based entities and, as a result, foreign currency exchange rate movements will impact their value on the local books of 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 on the local books of 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. See Liquidity and Capital Resources Liquidity Liquidity associated with other activities Foreign exchange hedging activities for a discussion of our internal hedging strategies.

These U.S. dollar-denominated investments also pay a coupon which is generally higher than what a similar yen-denominated investment would pay. The incremental impact of this higher yield on our U.S. dollar-denominated investments, as well as our dual currency and synthetic dual currency investments discussed below, will vary over time, and is dependent on the duration of the underlying investments, as well as interest rate environments in both the U.S. and Japan at the time of the investments. See General Account Investments Investment Results for a discussion of the investment yields generated by our Japanese insurance operations.

Impact of foreign currency exchange rate movements on earnings

Forward currency hedging program

The financial results of our International Insurance segment reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segment s non-U.S. dollar-denominated earnings are translated at fixed currency exchange rates. The fixed rates are determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment s U.S. dollar-equivalent earnings. Pursuant to this program, Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings for certain currencies in exchange for U.S. dollars at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-U.S. dollar-denominated earnings are expected to be generated. In establishing the level of non-U.S. dollar-denominated earnings that will be hedged through this program, we exclude the anticipated level of U.S. dollar-denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of non-yen denominated earnings that will be generated by non-yen denominated products and investments. As of December 31, 2014, we have hedged 100%, 72% and 28% of expected yen-based earnings for 2015, 2016 and 2017, respectively. To the extent currently unhedged, our International Insurance segment s future expected U.S. dollar-equivalent earnings will be impacted by yen exchange rate movements.

As a result of this intercompany arrangement, our International Insurance segment s results for 2012, 2013 and 2014 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 85, 80 and 82 yen per U.S. dollar, respectively, and Korean won-denominated earnings at fixed currency exchange rates of 1180, 1160 and 1150 Korean won per U.S. dollar, respectively. Our results for 2015 will reflect the impact of translating yen and Korean won-denominated earnings at fixed currency exchange rates of 91 yen per U.S. dollar and 1120 Korean won per U.S. dollar, respectively.

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Results of Corporate and Other operations include any differences between the translation adjustments recorded by the segment at the fixed currency exchange rate versus the actual average rate during the period, and the gains or losses recorded from the forward currency contracts that settled during the period, which include the impact of any over or under hedging of actual earnings that differ from projected earnings. The table below presents, for the periods indicated, the increase (decrease) to revenues and adjusted operating income for the International Insurance segment and for Corporate and Other operations, reflecting the impact of this intercompany arrangement.

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
International Insurance Segment:			
Impact of intercompany arrangement(1)	$ 275	$ 222	$ (92)
Corporate and Other operations:			
Impact of intercompany arrangement(1)	(275)	(222)	92
Settlement gains (losses) on forward currency contracts	293	240	(72)
Net benefit (detriment) to Corporate and Other operations	18	18	20
Net impact on consolidated revenues and adjusted operating income	$ 293	$ 240	$ (72)

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

As of December 31, 2014 and 2013, the notional amounts of these forward currency contracts were $2.6 billion and $3.5 billion, respectively, of which $2.0 billion and $2.7 billion, respectively, were related to our Japanese insurance operations.

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

Our international insurance operations primarily offer products denominated in local currency; however, several of our international insurance operations, most notably our Japanese operations, also offer products denominated in non-local currencies, primarily comprised of U.S. and Australian dollar-denominated products. The non-yen denominated insurance liabilities related to these products are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While the impact from foreign currency exchange rate movements on these non-yen denominated assets and liabilities is economically matched, differences in the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements have historically resulted in volatility in reported U.S. GAAP earnings. For example, unrealized gains and losses on available-for-sale investments, including those arising from foreign currency exchange rate movements, are recorded in AOCI, whereas the non-yen 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 and losses resulting from the remeasurement of these non-yen denominated liabilities, and certain related non-yen denominated assets, are 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 $3,073 million, $3,962 million and $1,570 million, for the years ended December 31, 2014, 2013 and 2012, respectively. As discussed above, we have implemented a new reporting structure in Gibraltar Life that disaggregates the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The new structure will be effective for financial reporting beginning in the first quarter of 2015 and will minimize future volatility in reported U.S. GAAP earnings arising from foreign currency remeasurement. For the U.S. and Australian dollar-denominated assets being transferred to these divisions, the net cumulative unrealized investment gains associated with foreign exchange remeasurement recorded in AOCI as of November 30, 2014 will be recognized in earnings within Realized investment gains (losses), net over time as the assets mature or are sold.

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As discussed in Note 1 to the Consolidated Financial Statements, Gibraltar Life s current period results of operations represent earnings through November 30, 2014 and Gibraltar Life s current period assets and liabilities represent balances as of November 30, 2014.

International Insurance

Operating Results

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. 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 91 yen per U.S. dollar and Korean won at a rate of 1120 won per U.S. dollar, both of which were determined in connection with the foreign currency income hedging program discussed above. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is generally reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the Sales Results section below reflect translation based on these same uniform exchange rates.

The following table sets forth the International Insurance segment s operating results for the periods indicated.

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Operating results:			
Revenues:			
Life Planner operations	$ 9,267	$ 8,978	$ 9,002
Gibraltar Life and Other operations	10,799	13,562	20,584
Total revenues	20,066	22,540	29,586
Benefits and expenses:			
Life Planner operations	7,678	7,461	7,521
Gibraltar Life and Other operations	9,136	11,927	19,361
Total benefits and expenses	16,814	19,388	26,882
Adjusted operating income:			
Life Planner operations	1,589	1,517	1,481
Gibraltar Life and Other operations	1,663	1,635	1,223
Total adjusted operating income	3,252	3,152	2,704
Realized investment gains (losses), net, and related adjustments(1)	(2,192)	(4,065)	(1,989)
Related charges	(59)	(140)	(60)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	188	468	204
Change in experience-rated contractholder liabilities due to asset value changes	(188)	(468)	(204)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	5	(63)	(58)

Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,006	$ (1,116)	$ 597

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

Adjusted Operating Income

2014 to 2013 Annual Comparison. Adjusted operating income from Life Planner operations increased $72 million including a net unfavorable impact of $16 million from currency fluctuations, inclusive of the currency

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hedging program discussed above. Both periods benefited from the impact of our annual reviews and updates of assumptions and other refinements which resulted in a $17 million net benefit in 2014, compared to a $19 million net benefit in 2013, primarily driven by favorable updates to actuarial assumptions in both periods. Results for 2014 also included a $24 million net unfavorable impact primarily from reserve refinements in our Korean and Japan operations, compared to a $78 million charge to strengthen reserves in 2013, primarily for certain policies on a previously-acquired business.

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

Adjusted operating income from our Gibraltar Life and Other operations increased $28 million including a net unfavorable impact of $39 million from currency fluctuations, inclusive of the currency hedging program discussed above. Both periods included the impact of our annual reviews and updates of assumptions and other refinements which resulted in a $15 million net charge in 2014, driven by unfavorable updates to economic assumptions and other refinements, compared to a $108 million net charge in 2013, primarily driven by unfavorable updates to actuarial assumptions. Results for 2014 also included a $73 million charge for reserve refinements, $43 million of which is related to prior periods. See Note 1 to the Consolidated Financial Statements for more information. Results for 2013 also included a $66 million gain on our investment, through a consortium, in China Pacific Group, for which our remaining shares were sold in January 2013, as well as $28 million of integration costs related to the acquisition of the Star and Edison Businesses and a $23 million charge for reserve refinements.

Excluding the effect of these items, adjusted operating income increased $62 million primarily reflecting higher net investment spreads, gains on sales of fixed assets, the absence of certain policyholder dividend refinements that were made in the first quarter of 2013 and lower expenses. Partially offsetting these variances was a lesser impact from accelerated earnings due to surrenders of fixed annuities denominated in Australian and U.S. dollars, as well as less favorable mortality experience.

2013 to 2012 Annual Comparison. Adjusted operating income from our Life Planner operations increased $36 million including a net favorable impact of $51 million from currency fluctuations. Results for 2013 included a $78 million charge to strengthen reserves primarily for certain policies on a previously-acquired business. Both periods benefited from the impact of our annual reviews and updates of assumptions and other refinements which resulted in a $19 million benefit in 2013, compared to a $20 million benefit in 2012.

Excluding the effect of these items, adjusted operating income increased $64 million. This increase primarily reflected growth of business in force driven by sales results and continued strong persistency, partially offset by lower contributions from net investment spreads as a result of lower reinvestment rates.

Adjusted operating income from our Gibraltar Life and Other operations increased $412 million including a net favorable impact of $38 million from currency fluctuations. Results for 2013 benefited from lower integration costs relating to the acquisition of the Star and Edison Businesses, for which we incurred $138 million in 2012 compared to $28 million in 2013. Adjusted operating income for both periods reflected the impact from partial sales of our previous investment held in China Pacific Group, which contributed a $66 million gain in 2013 compared to a $60 million gain in 2012. Partially offsetting these favorable variances was a $108 million charge in 2013 from our annual reviews and updates of assumptions and other refinements, as discussed above.

Excluding the effect of these items, adjusted operating income increased $366 million, primarily reflecting business growth, favorable results from non-coupon investments and higher cost savings resulting from Star and Edison integration synergies. In addition, results for 2013

benefited from favorable mortality experience and accelerated earnings due to surrenders of fixed annuities denominated in Australian and U.S. dollars.

Revenues, Benefits and Expenses

2014 to 2013 Annual Comparison. Revenues from our Life Planner operations, as shown in the table above under Operating Results, increased $289 million including a net unfavorable impact of $351 million

from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $640 million. This increase was primarily driven by higher premiums and policy charges and fee income of $465 million related to growth of business in force. Net investment income increased $150 million primarily reflecting investment portfolio growth, partially offset by the impact of lower reinvestment rates.

Benefits and expenses from our Life Planner operations, as shown in the table above under Operating Results, increased $217 million including a net favorable impact of $335 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $552 million. Policyholder benefits, including changes in reserves, increased $456 million primarily driven by business growth. These items were partially offset by favorable mortality experience and lesser comparative reserve refinements, as discussed above. General and administrative expenses, net of capitalization, increased $83 million primarily due to higher distribution costs and technology expenditures.

Revenues from our Gibraltar Life and Other operations decreased $2,763 million, including a net unfavorable impact of $411 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues decreased $2,352 million, driven by a $2,358 million decrease in premiums and policy charges and fee income. The decrease in premiums and policy charges and fee income primarily reflected the discontinuation of bank channel sales of yen-denominated single premium reduced death benefit whole life products and pricing actions taken on certain retirement and protection products in 2013, as well as lower premiums from the Life Consultant distribution channel and reserve refinements, as discussed above. The decrease in revenues also included the impact of $66 million from the sale of our investment in China Pacific Group during the first quarter of 2013, as discussed above.

Benefits and expenses of our Gibraltar Life and Other operations decreased $2,791 million including a net favorable impact of $372 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses decreased $2,419 million. Policyholder benefits, including changes in reserves, decreased $2,350 million driven by the discontinuation of bank channel sales of yen-denominated single premium reduced death benefit whole life products and pricing actions taken on certain retirement and protection products in 2013.

2013 to 2012 Annual Comparison. Revenues from our Life Planner operations decreased $24 million including a net unfavorable impact of $682 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $658 million. This increase was primarily driven by higher premiums and policy charges and fee income of $535 million related to growth of business in force in our Japan operation. Net investment income increased $141 million primarily reflecting investment portfolio growth, partially offset by the impact of lower reinvestment rates.

Benefits and expenses of our Life Planner operations decreased $60 million including a net favorable impact of $733 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $673 million. Policyholder benefits, including changes in reserves, increased $535 million primarily driven by business growth as well as charges to strengthen reserves primarily for certain policies, as discussed above. The amortization of DAC increased $58 million primarily reflecting the growth of business in force. General and administrative expenses, net of capitalization, increased $51 million primarily due to higher distribution costs and technology expenditures.

Revenues from our Gibraltar Life and Other operations decreased $7,022 million including a net unfavorable impact of $2,388 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues decreased $4,634 million. This decrease was driven by a $4,830 million decrease in premiums and policy charges and fee income primarily reflecting the repricing and subsequent discontinuation of bank channel sales of yen-denominated single premium reduced death benefit whole life products in 2013. Net investment income increased $271 million primarily reflecting portfolio growth and favorable results from non-coupon investments.

Benefits and expenses of our Gibraltar Life and Other operations decreased $7,434 million, including a net favorable impact of $2,426 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses decreased $5,008 million. Policyholder benefits, including changes in reserves, decreased $4,749 million driven by lower sales of yen-denominated single premium reduced death benefit whole life

policies. In addition, general and administrative expenses, net of capitalization, decreased $263 million primarily driven by lower integration costs and higher integration synergies relating to the acquisition of the Star and Edison Businesses.

Sales Results

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

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Annualized new business premiums:			
On an actual exchange rate basis:			
Life Planner operations	$ 1,161	$ 1,128	$ 1,354
Gibraltar Life	1,584	1,756	2,724
Total	$ 2,745	$ 2,884	$ 4,078
On a constant exchange rate basis:			
Life Planner operations	$ 1,218	$ 1,147	$ 1,261
Gibraltar Life	1,681	1,789	2,456
Total	$ 2,899	$ 2,936	$ 3,717

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 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.

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

	Year Ended December 31, 2014					Year Ended December 31, 2013				
	Life	Accident & Health	Retirement (1)	Annuity	Total	Life	Accident & Health	Retirement (1)	Annuity	Total
					(in millions)					
Life Planners	$ 696	$ 113	$ 343	$ 66	$ 1,218	$ 553	$ 104	$ 439	$ 51	$ 1,147
Gibraltar Life:										
Life Consultants	380	74	124	178	756	434	96	131	135	796
Banks(2)	439	1	10	200	650	657	1	9	102	769
Independent Agency	108	30	66	71	275	88	32	69	35	224
Subtotal	927	105	200	449	1,681	1,179	129	209	272	1,789
Total	$ 1,623	$ 218	$ 543	$ 515	$ 2,899	$ 1,732	$ 233	$ 648	$ 323	$ 2,936

(1) Includes retirement income, endowment and savings variable universal life.
(2) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 7% and 54%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2014, and 38% and 46%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2013. Single pay and short-term limited pay products generally have less death benefit protection per premium paid than longer-term recurring premium products.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $71 million. Results reflected higher sales of whole life products and annuity products in our Korean operation and of whole life products and accident and health products in our Brazilian operation. These increases were partially offset by a net decline in sales in our Japanese operations where commission rate changes resulted in lower sales of certain retirement products that more than offset an increase in sales of term life products.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations decreased $108 million. Bank channel sales declined $119 million due to the discontinuation of our yen-denominated single premium reduced death benefit whole life products in the fourth quarter of 2013, partially offset by higher sales of U.S. and Australian dollar-denominated annuity products and U.S. dollar-denominated whole life products. Life Consultant sales declined $40 million primarily due to pricing actions taken in the second quarter of 2013 on certain retirement and protection products as well as a lower Life Consultant count, partially offset by higher sales of Australian dollar-denominated annuity products. Independent Agency sales increased $51 million primarily driven by higher sales of Australian dollar-denominated annuity products.

2013 to 2012 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, 2013					Year Ended December 31, 2012				
	Life	Accident & Health	Retirement (1)	Annuity	Total	Life	Accident & Health	Retirement (1)	Annuity	Total
					(in millions)					
Life Planners	$ 553	$ 104	$ 439	$ 51	$ 1,147	$ 451	$ 174	$ 561	$ 75	$ 1,261
Gibraltar Life:										
Life Consultants	434	96	131	135	796	401	136	177	133	847
Banks(2)	657	1	9	102	769	1,128	33	12	110	1,283
Independent Agency	88	32	69	35	224	73	178	51	24	326
Subtotal	1,179	129	209	272	1,789	1,602	347	240	267	2,456
Total	$ 1,732	$ 233	$ 648	$ 323	$ 2,936	$ 2,053	$ 521	$ 801	$ 342	$ 3,717

(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 38% and 46%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2013, and 73% and 20%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the year ended December 31, 2012. Single pay and short-term limited pay products generally have less death benefit protection per premium paid than longer-term recurring premium products.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased $114 million driven by a $115 million decrease in Japan. The decline in Japan primarily reflected accelerated sales of U.S. dollar-denominated retirement income and cancer whole life products in 2012 prior to crediting rate and tax law changes, respectively. These declines were partly offset by increased sales of protection and yen-denominated retirement income products in Japan. In addition, increased sales from growth of our Life Planner operation in Brazil were offset by lower sales in Taiwan and Korea.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations decreased $667 million. Bank channel sales declined $514 million reflecting lower sales of yen-denominated single premium reduced death benefit whole life policies, partially offset by higher sales of recurring premium whole life products. Independent Agency and Life Consultant sales declined $102 million and $51 million, respectively, driven by accelerated sales of cancer whole life products and U.S. dollar-denominated retirement income and whole life products in 2012 due to tax law and crediting rate changes, respectively.

Salesforce

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

	As of December 31,		
	2014	**2013**	**2012**
Life Planners:			
Japan	3,328	3,258	3,216
All other countries	4,024	3,990	3,842
Gibraltar Life Consultants	8,707	9,327	11,333
Total	16,059	16,575	18,391

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

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

2013 to 2012 Comparison. The number of Life Planners increased by 190, driven by an increase of 202 in Brazil as a result of recruiting efforts and agency growth. Life Planner growth in Japan of 42 was offset by a decline of 44 in Taiwan.

The number of Gibraltar Life Consultants decreased by 2,006, primarily reflecting the termination of Life Consultants for not meeting minimum sales production standards as part of an ongoing competency assessment.

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.

	Year ended December 31,		
	2014	2013	2012
	(in millions)		
Operating results:			
Capital debt interest expense	$ (626)	$ (655)	$ (699)
Operating debt interest expense, net of investment income	(126)	(140)	(53)
Pension and employee benefits	185	243	162
Other corporate activities(1)	(781)	(818)	(748)
Adjusted operating income	(1,348)	(1,370)	(1,338)
Realized investment gains (losses), net, and related adjustments	(3,656)	2,270	469
Related charges	4	(51)	(24)
Divested businesses	167	29	(615)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(2)	1	(11)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (4,835)	$ 879	$ (1,519)

(1) Includes consolidating adjustments.

2014 to 2013 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, decreased $22 million. Net charges from other corporate activities declined $37 million, primarily reflecting reduced retained corporate expenses, including lower compensation related costs, and the absence of the accelerated recognition of deferred bond issuance costs related to capital and operating debt redeemed in 2013. These reductions were partially offset by increased costs for enhanced regulatory supervision, an unfavorable

comparative impact for the change in our estimate of payments arising from use of the Social Security Master Death file matching criteria to identify both deceased policy and contract holders, and an unfavorable impact from our annual reviews and updates of assumptions on the reserves for certain retained obligations relating to pre-demutualization policyholders. Capital debt interest expense decreased $29 million, primarily driven by the replacement of higher coupon debt with new issuances at lower rates during 2013. Operating debt interest expense, net of investment income, decreased $14 million driven by higher income on higher levels of invested assets.

Results from pension and employee benefits decreased $58 million. Income from our qualified pension plan decreased $80 million driven by lower expected returns from a decline in value of fixed income plan assets and higher interest costs on the plan obligation from a higher discount rate. Additionally, an unfavorable comparative impact of retained benefit expenses, including the impact of plan amendments in 2013, contributed to the decline

in pension and employee benefits results. These declines were partially offset by lower post-retirement plan expense driven by higher expected returns from an increase in value of equity plan assets and lower post-employment plan expense driven by favorable 2014 census and assumption updates.

Following the SOA s final issuance in October 2014 of a study of mortality rates and expected future improvement in mortality rates for U.S. benefit plan participants, we reviewed our plan experience and updated our mortality assumption with respect to the measure of our domestic pension and postretirement obligations, effective December 31, 2014.

For purposes of calculating pension income from our qualified pension plan for the year ended December 31, 2015, we will also decrease the discount rate to 4.10% from 4.95% in 2014. The expected rate of return on plan assets and the assumed rate of increase in compensation will remain unchanged at 6.25% and 4.5%, respectively. Giving effect to the foregoing assumptions and other factors, including the mortality assumption change, we expect income from our qualified pension plan in 2015 to be approximately $5 million to $15 million higher than 2014 levels. The increase is driven by higher expected returns on plan assets due to higher than expected plan fixed income asset growth in 2014 as well as lower interest costs on the plan obligation due to the lower discount rate. These increases are partially offset by the impact of the mortality assumption update, the related increase in the plan obligation and its effect on interest costs and amortization of actuarial losses.

For purposes of calculating postretirement benefit expenses for the year ended December 31, 2015, we will also decrease the discount rate to 3.95% from 4.75%. The expected rate of return on plan assets will remain unchanged at 7.00%. We expect other postretirement benefit expenses in 2015 to be approximately $5 million to $15 million higher than 2014 levels. The increase in expenses is driven by the impact of the mortality assumption update, the related increase in the plan obligation and its effect on interest costs and amortization of actuarial losses as well as the net impact of the lower discount rate. These increases are partially offset by a change in our expected claims based on a review of our plan experience.

In 2015, 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.

2013 to 2012 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $32 million. Operating debt interest expense, net of investment income, increased $87 million driven by higher levels of operating debt proceeds held in cash for debt prefunding activities and to provide additional flexibility for the cash needs in our businesses. Net charges from corporate activities increased $70 million and included the impact of our annual review and update of assumptions on the reserves for certain retained obligations relating to pre-demutualization policyholders. This update resulted in net charges of $78 million for 2012. Excluding the impact of this update, the increase in net charges from other corporate activities was primarily driven by increased retained corporate expenses including higher compensation costs due to improvement in company earnings and favorable equity market performance. Capital debt interest expense decreased $44 million due to lower levels of capital debt and the retirement of debt issued at higher interest rates.

Results from Corporate and Other operations pension and employee benefits increased $81 million primarily due to the absence of an increase in recorded liabilities for certain employee benefits in 2012 and a favorable comparative impact of retained benefit expenses. Income from our qualified pension plan decreased $21 million driven by the net impact of changes in the discount rate to 4.05% in 2013 from 4.85% in 2012 and the expected rate of return on plan assets to 6.25% in 2013 from 6.75% in 2012.

Capital Protection Framework

Corporate and Other operations includes the results related to our Capital Protection Framework, which includes the capital hedge program. The capital hedge program broadly addresses the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios, using equity-based derivatives. We also

manage certain risks associated with our variable annuity products through our living benefit hedging program, which is described under U.S. Retirement Solutions and Investment Management Division Individual Annuities. In addition, we may choose to manage certain capital market related risk associated with various operations of the Financial Services Businesses through capital management strategies other than hedging of particular exposures.

The hedging costs included in adjusted operating income related to these programs were $39 million, $45 million and $40 million for the years ended December 31, 2014, 2013 and 2012, respectively. Realized investment gains (losses), net and related adjustments includes net losses of $3,694 million, net gains of $2,077 million and net gains of $169 million for the years ended December 31, 2014, 2013 and 2012 respectively, primarily resulting from our utilization of capital management strategies to manage a portion of our interest rate risk. The net losses in 2014 and net gains in 2013 were driven by significant declines and increases, respectively, in interest rates during the respective periods. The capital consequences associated with these decisions have been factored into our Capital Protection Framework.

Through our Capital Protection Framework, we hold on-balance sheet capital and maintain access to committed sources of capital to meet capital needs related to these hedging programs. We assess the composition of these hedging programs on an ongoing basis, and we may change them from time to time based on our evaluation of our risk position or other factors. For more information on our Capital Protection Framework, see Liquidity and Capital Resources.

Results of Operations of the Closed Block Business

We established the Closed Block Business effective as of the date of demutualization. The Closed Block Business includes our 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, as well as other assets and equity and related liabilities that support these policies. We no longer offer these traditional domestic participating policies. See Note 12 to the Consolidated Financial Statements for additional details. As noted in Overview above, for reporting periods commencing after December 31, 2014, the distinction between the Financial Services Businesses and the Closed Block Business will be eliminated. The results of the Closed Block, along with certain related assets and liabilities, will be referred to as the Closed Block division and treated as a divested business under our definition of adjusted operating income.

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 will 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 Business 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, 2014, the excess of actual cumulative earnings over the expected cumulative earnings was $1,558 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 $5,053 million at December 31, 2014, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in AOCI.

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Operating Results

Management does not consider adjusted operating income to assess the operating performance of the Closed Block Business. Consequently, results of the Closed Block Business for all periods are presented only in accordance with U.S. GAAP. The following table sets forth the Closed Block Business U.S. GAAP results for the periods indicated.

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
U.S. GAAP results:			
Revenues	$ 6,906	$ 6,036	$ 6,257
Benefits and expenses	7,165	5,974	6,193
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (259)	$ 62	$ 64

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

2014 to 2013 Annual Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $321 million. Results for 2014 included a $487 million charge representing a make-whole provision for early redemption of the IHC Debt and the cost of terminating associated interest rate swaps, $13 million of bank and legal fees related to the IHC Debt redemption and Class B Stock repurchase and $13 million for the acceleration of the amortization of IHC Debt issuance cost. See Overview above for additional information. Excluding the effects of these items, income from continuing operations before income taxes and equity in earnings of operating joint ventures increased $192 million, primarily driven by an increase in net realized investment gains, partially offset by an unfavorable impact from net insurance activity and unfavorable valuation changes in trading account assets. Net realized investment gains increased $968 million reflecting favorable changes in the value of derivatives and higher trading gains on fixed maturities and equity securities. Net insurance activity results declined $72 million primarily reflecting higher dividends to policyholders as a result of an increase in the 2014 and 2015 dividend scales. The value of trading account assets declined $22 million primarily due to foreign currency translation losses on fixed maturities. As a result of the above and other variances, a $671 million policyholder dividend obligation expense was recorded in 2014, compared to $2 million in 2013. As noted above, as of December 31, 2014, the excess of actual cumulative earnings over the expected cumulative earnings was $1,558 million. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block Business, which is primarily due to changes in investment results, may not be offset by changes in the cumulative policyholder dividend obligation. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses.

2013 to 2012 Annual Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $2 million primarily due to a decline in net investment income. Net investment income decreased $137 million primarily reflecting the impact of lower reinvestment rates and lower asset balances as the business runs off, partially offset by favorable results from non-coupon investments. Net realized investment gains decreased $11 million, primarily due to $251 million of unfavorable changes in the value of derivatives, largely offset by higher trading gains on equity securities. As a result of the above and other variances, a $2 million policyholder dividend obligation expense was recorded in 2013, compared to $123 million in 2012.

Revenues, Benefits and Expenses

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

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Benefits and expenses, as shown in the table above under Operating Results, increased $1,191 million, primarily driven by a $725 million increase in dividends to policyholders including a $669 million increase in the policyholder dividend obligation expense reflecting higher cumulative earnings and a $56 million increase in dividends paid and accrued to policyholders as a result of an increase in the 2014 and 2015 dividend scales, partially offset by the runoff of policies in force. General and administrative expenses, inclusive of interest expense, increased $474 million, including a $448 million charge on a make-whole provision for early redemption of the IHC Debt, $13 million of bank and legal fees related to the IHC Debt redemption and Class B Stock repurchase and $13 million for the acceleration of the amortization of IHC Debt issuance cost, as discussed above.

2013 to 2012 Annual Comparison. Revenues decreased $221 million primarily driven by a $137 million decrease in net investment income, as discussed above. Premiums declined by $89 million, with a related decrease in changes in reserves, primarily due to the runoff of policies in force. Also contributing to the decline in revenues was an $11 million decrease in net realized investment gains, as discussed above.

Benefits and expenses decreased $219 million primarily driven by a $111 million decrease in policyholder benefits, including changes in reserves. This decrease primarily reflects the absence of a reserve increase in the prior year for estimated payments arising from the use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders, as well as the runoff of policies in force. Also contributing to the decrease is a $111 million decline in dividends to policyholders, including a $121 million decrease in the policyholder dividend obligation expense reflecting a lower increase in cumulative earnings, partially offset by an increase in dividends paid and accrued of $10 million.

Income Taxes

Shown below is our income tax provision for the years ended December 31, 2014, 2013 and 2012, separately reflecting the impact of certain significant items. Also presented below is the income tax provision that would have resulted from application of the statutory 35% federal income tax rate in each of these periods.

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Tax provision (benefit)	$ 349	$ (1,058)	$ 213
Impact of:			
Non-taxable investment income	381	319	302
Foreign taxes at other than U.S. rate	(140)	36	51
Low income housing and other tax credits	127	105	78
Reversal of acquisition opening balance sheet deferred tax items	(53)	(55)	(384)
Repatriation change	(32)	0	(6)
Minority interest	19	37	17
Medicare Part D	(3)	43	1
State and local taxes	2	(10)	(15)
Other	(34)	(6)	(9)
Tax provision (benefit) excluding these items	$ 616	$ (589)	$ 248
Tax provision (benefit) at statutory rate	$ 616	$ (589)	$ 248

Our income tax provision, on a consolidated basis, amounted to an income tax expense of $349 million in 2014 compared to a benefit of $1,058 million in 2013. Our income tax provision for 2014 and 2013 includes $53 million and $55 million, respectively, of an additional U.S. tax

expense related to the realization of a portion of the local deferred tax assets existing on the opening day balance sheet for the Star and Edison Businesses and Prudential Gibraltar Financial Life Insurance Company, Ltd (Prudential Gibraltar). The local utilization of the deferred tax asset coupled with the repatriation assertion related to the applicable earnings of our Japanese entities creates the effect of a double tax for U.S. GAAP purposes, even though the tax will only be paid once. In addition, the U.S. tax expense for 2014 is reflective of a change in repatriation assertion for our Japanese insurance companies, which includes Prudential of Japan, Gibraltar Life and Prudential Gibraltar. During the fourth quarter of 2014, we changed the repatriation assertion with respect to current year operating earnings and

accumulated other comprehensive income, except realized and unrealized capital gains and losses, to be treated as permanently reinvested. As a result, foreign taxes at other than the U.S. rate for 2014 reflect the lower local country rate for permanently reinvested earnings of our Japanese insurance operations. The U.S. tax expense for 2013 is reflective of a change in repatriation assertion for Gibraltar Life and Prudential Gibraltar. During 2013, we determined that in addition to U.S. GAAP earnings, we would repatriate an additional amount from Gibraltar Life and Prudential Gibraltar, but that such additional amount would not exceed the deferred tax assets recorded in the Statement of Financial Position as of the acquisition date for Prudential Gibraltar and the Star and Edison Businesses. Excluding the impact of the double tax and the 2014 change in repatriation assertion for our Japanese insurance companies, the 2014 income tax expense increased primarily due to the increase in pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures.

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

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

Discontinued Operations

Included within net income are the results of businesses that are reflected as discontinued operations under U.S. GAAP. Income (loss) from discontinued operations, net of taxes, was $12 million, $7 million and $15 million for the years ended December 31, 2014, 2013 and 2012, respectively. For additional information regarding discontinued operations, see Note 3 to the Consolidated Financial Statements.

Divested Businesses

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. For a further description of these divested businesses, see Business Corporate and Other. As described in Overview above, for reporting periods commencing after December 31, 2014, results of the Closed Block, along with certain related assets and liabilities, will be reported as the Closed Block division, which will be accounted for as a divested business and reported separately from those included in Corporate and Other operations. 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,		
	2014	2013	2012
		(in millions)	
Long-Term Care	$ 171	$ (34)	$ (608)
Wealth Management Services	2	(3)	(18)

Residential Real Estate Brokerage Franchise and Relocation Services	2	84	26
Individual Health and Disability Insurance	(8)	(15)	(6)
Other	0	(3)	(9)
Total divested businesses income (loss) excluded from adjusted operating income	$ 167	$ 29	$ (615)

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Long-Term Care. Results for the year ended December 31, 2014 primarily reflected realized gains from derivatives used in duration management, driven by the impact of declining interest rates. Results for the year ended December 31, 2012 primarily reflected a $639 million unfavorable impact from our annual reviews and updates of assumptions.

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

Experience-Rated Contractholder Liabilities,

Trading Account Assets Supporting Insurance Liabilities and Other Related Investments

Certain products included in the Retirement and International Insurance segments are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are classified as trading and are carried at fair value. These trading investments are reflected on the statements of financial position as Trading account assets supporting insurance liabilities, at fair value (TAASIL). Realized and unrealized gains and losses for these investments are reported in Other income. Interest and dividend income for these investments is reported in Net investment income. To a lesser extent, these experience-rated products are also supported by derivatives and commercial mortgage and other loans. The derivatives that support these experience-rated products are reflected on the statement of financial position as Other long-term investments and are carried at fair value, and the realized and unrealized gains and losses are reported in Realized investment gains (losses), net. The commercial mortgage and other loans that support these experience-rated products are carried at unpaid principal, net of unamortized discounts and an allowance for losses, and are reflected on the statements of financial position as Commercial mortgage and other loans. Gains and losses on sales and changes in the valuation allowance for commercial mortgage and other loans are reported in Realized investment gains (losses), net.

Our Retirement segment has two types of experience-rated products that are supported by TAASIL and other related investments. Fully participating products are those for which the entire return on underlying investments is passed back to the policyholders through a corresponding adjustment to the related liability. The adjustment to the liability is based on changes in the fair value of all of the related assets, including commercial mortgage and other loans, which are carried at amortized cost, less any valuation allowance. Partially participating products are those for which only a portion of the return on underlying investments is passed back to the policyholders over time through changes to the contractual crediting rates. The crediting rates are typically reset semiannually, often subject to a minimum crediting rate, and returns are required to be passed back within ten years.

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 and losses on TAASIL, related derivatives and commercial mortgage and other loans. This is consistent with the exclusion of realized investment gains and 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 and 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.

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The following tables set forth the impact on results for the periods indicated of these items that are excluded from adjusted operating income:

	Year ended December 31,		
	2014	2013	2012
		(in millions)	
Retirement Segment:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$ 151	$ (718)	$ 406
Derivatives	(32)	52	(86)
Commercial mortgages and other loans	12	(2)	5
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(106)	695	(336)
Net gains (losses)	$ 25	$ 27	$ (11)
International Insurance Segment:			
Investment gains (losses) on trading account assets supporting insurance liabilities, net	$ 188	$ 468	$ 204
Change in experience-rated contractholder liabilities due to asset value changes	(188)	(468)	(204)
Net gains (losses)	$ 0	$ 0	$ 0
Total:			
Investment gains (losses) on:			
Trading account assets supporting insurance liabilities, net	$ 339	$ (250)	$ 610
Derivatives	(32)	52	(86)
Commercial mortgages and other loans	12	(2)	5
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(294)	227	(540)
Net gains (losses)	$ 25	$ 27	$ (11)

(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 $2 million, $26 million and $3 million as of December 31, 2014, 2013 and 2012, 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 a decrease of $1 million, a decrease of $58 million and an increase of $18 million for the years ended December 31, 2014, 2013 and 2012, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

The net impacts for the Retirement segment of changes in experience-rated contractholder liabilities and investment gains and 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 or more significant unobservable input in the measurement. See Note 20 to the Consolidated Financial Statements for an additional description of the valuation hierarchy levels.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis, as of the periods indicated, split between the Financial Services Businesses and Closed Block Business, and the

portion of such assets and liabilities that are classified in Level 3 of the valuation hierarchy. See Note 20 to the Consolidated Financial Statements for the balances of assets and liabilities measured at fair value on a recurring basis by hierarchy level presented on a consolidated basis.

	As of December 31, 2014				As of December 31, 2013			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	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	$ 255,424	$ 4,655	$ 43,666	$ 1,011	$ 243,654	$ 4,079	$ 43,212	$ 866
Trading account assets:								
Fixed maturities	26,965	550	198	0	23,469	511	185	9
Equity securities	2,139	555	152	108	2,219	722	157	120
All other(2)	1,683	7	0	0	1,250	6	0	0
Subtotal	30,787	1,112	350	108	26,938	1,239	342	129
Equity securities, available-for-sale	6,339	272	3,522	3	6,026	298	3,884	6
Commercial mortgage and other loans	380	0	0	0	158	0	0	0
Other long-term investments	1,441	1,216	331	331	1,595	1,396	(66)	0
Short-term investments	5,898	0	1,837	0	5,520	0	1,665	0
Cash equivalents	10,647	0	1,198	0	6,362	0	620	0
Other assets	115	2	0	0	131	4	85	0
Subtotal excluding separate account assets	311,031	7,257	50,904	1,453	290,384	7,016	49,742	1,001
Separate account assets	296,435	24,662	0	0	285,060	22,603	0	0
Total assets	$ 607,466	$ 31,919	$ 50,904	$ 1,453	$ 575,444	$ 29,619	$ 49,742	$ 1,001
Future policy benefits	$ 8,182	$ 8,182	$ 0	$ 0	$ 441	$ 441	$ 0	$ 0
Other liabilities(2)	228	5	0	0	2,201	5	6	0
Notes issued by consolidated variable interest entities (VIEs)	6,033	6,033	0	0	3,254	3,254	0	0
Total liabilities	$ 14,443	$ 14,220	$ 0	$ 0	$ 5,896	$ 3,700	$ 6	$ 0

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5.3% and 5.1% as of December 31, 2014 and 2013, respectively, for the Financial Services Businesses, and 2.9% and 2.0% as of December 31, 2014 and 2013, respectively, for the Closed Block Business.

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

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 of our Financial Services Businesses and our Closed Block Business 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 included approximately $5.1 billion and $4.3 billion as of December 31, 2014 and 2013, respectively, of public fixed maturities, with values primarily based on indicative broker quotes, and approximately $1.2 billion as of both December 31, 2014 and 2013 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 will have access to this data.

The impact our determination of fair value for fixed maturity and equity securities has on our results of operations is dependent on our classification of the security as either trading, available-for-sale, or held-to-maturity. For our investments classified as trading, the impact of changes in fair value is recorded within "Other income." For our investments classified as available-for-sale, the impact of changes in fair value is recorded as an unrealized gain or loss in AOCI, a separate component of equity. Our investments classified as held-to-maturity are carried at amortized cost.

Other Long-Term Investments

Other long-term investments classified in Level 3 primarily include real estate held in consolidated investment funds and fund investments where the fair value option has been elected. The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model. The appraisals also include replacement cost estimates and recent sales data as alternate methods of fair value. These appraisals and the related assumptions are updated at least annually. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments are reflected within Level 3. Consolidated real estate investment funds classified as Level 3 totaled approximately $0.4 billion and $0.5 billion as of December 31, 2014 and 2013, respectively. The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments are included within Level 3. Investments in these funds included in Level 3 totaled approximately $1.1 billion and $0.7 billion as of December 31, 2014 and 2013, respectively.

Separate Account Assets

Separate account assets included in Level 3 primarily include real estate investments for which values are determined as described above under "Other Long-Term Investments." Separate account liabilities are reported at contract value and not fair value.

Variable Annuity Optional Living Benefit Features

Future policy benefits classified in Level 3 primarily include liabilities related to guarantees associated with the optional living benefit features of certain variable annuity contracts offered by our Individual Annuities segment, including GMAB, GMWB and GMIWB. These benefits are accounted for as embedded derivatives and carried at fair value with changes in fair value included in "Realized investment gains (losses), net." The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, based on changing 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 were net liabilities of $8.2 billion and $0.4 billion as of December 31, 2014 and 2013, respectively. The increase in the net liability was driven by a decline in interest rates, as well as the impact of our annual reviews and updates of assumptions and other refinements. For additional information see "Results of Operations for Financial Services Businesses 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 CLOs, which we are required to consolidate. We have elected the fair value option for these notes, which are valued based on broker quotes.

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

Realized Investment Gains and Losses

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

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

The level of other-than-temporary impairments generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments 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 other-than-temporary-impairments for fixed maturity and equity securities, see Note 2 to the Consolidated Financial Statements.

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

Accordingly, realized investment gains and losses from our derivative activities can contribute significantly to fluctuations in net income. For a further discussion of optional living benefit guarantees and related hedge positions in our Individual Annuities segment, see Results of Operations for Financial Services Businesses 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. Other-than-temporary impairments, 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.

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The following table sets forth Realized investment gains (losses), net, by investment type for the Financial Services Businesses and Closed Block Business, as well as related charges and adjustments associated with the Financial Services Businesses, for the periods indicated. For additional details regarding adjusted operating income, which is our measure of performance for the segments of our Financial Services Businesses, see Note 22 to the Consolidated Financial Statements.

	Year Ended December 31,		
	2014	2013	2012
		(in millions)	
Realized investment gains (losses), net:			
Financial Services Businesses	$ 475	$ (5,438)	$ (1,684)
Closed Block Business	1,161	232	243
Consolidated realized investment gains (losses), net	$ 1,636	$ (5,206)	$ (1,441)
Financial Services Businesses:			
Realized investment gains (losses), net:			
Fixed maturity securities	$ 753	$ (213)	$ (140)
Equity securities	81	130	(54)
Commercial mortgage and other loans	79	72	92
Derivative instruments	(445)	(5,488)	(1,552)
Other	7	61	(30)
Total	$ 475	$ (5,438)	$ (1,684)
Related adjustments	(4,063)	(4,518)	(1,982)
Realized investment gains (losses), net, and related adjustments	(3,588)	(9,956)	(3,666)
Related charges	(542)	1,807	857
Realized investment gains (losses), net, and related charges and adjustments	$ (4,130)	$ (8,149)	$ (2,809)
Closed Block Business:			
Realized investment gains (losses), net:			
Fixed maturity securities	$ 441	$ 120	$ 103
Equity securities	431	314	78
Commercial mortgage and other loans	31	7	2
Derivative instruments	263	(200)	52
Other	(5)	(9)	8
Total	$ 1,161	$ 232	$ 243

2014 to 2013 Annual Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment gains were $475 million in 2014, compared to net realized investment losses of $5,438 million in 2013.

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Net realized gains on fixed maturity securities were $753 million in 2014, compared to net realized losses of $213 million in 2013, as set forth in the following table:

	Year Ended December 31,	
	2014	2013
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 1,063	$ 1,172
Private bond prepayment premiums	91	66
Total gross realized investment gains	1,154	1,238
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(36)	(150)
Gross losses on sales and maturities(1)	(327)	(1,270)
Credit related losses on sales	(38)	(31)
Total gross realized investment losses	(401)	(1,451)
Realized investment gains (losses), net Fixed Maturity Securities	$ 753	$ (213)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 736	$ (98)

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net gains on sales and maturities of fixed maturity securities of $736 million in 2014 were primarily due to sales and maturities of U.S. dollar-denominated securities within our International Insurance segment. Net losses on sales and maturities of fixed maturity securities of $98 million in 2013 were primarily driven by losses on sales of securities due to changes in interest rates subsequent to the acquisition of securities that were sold, partially offset by gains on sales within our International Insurance segment initiated for purposes of duration management as well as from surrenders of fixed annuities denominated in Australian and U.S. dollars. See below for information regarding the other-than-temporary impairments of fixed maturity securities in 2014 and 2013.

Net realized gains on equity securities were $81 million and $130 million for the years ended 2014 and 2013, respectively, driven by gains on sales, primarily within our International Insurance segment, of $107 million and $142 million, respectively. These gains were partially offset by other-than-temporary-impairments of $26 million and $12 million for the years ended 2014 and 2013, respectively. See below for additional information regarding the other-than-temporary impairments of equity securities in 2014 and 2013.

Net realized gains on commercial mortgage and other loans for the year ended 2014 were $79 million, primarily driven by a net decrease in the loan loss reserve of $65 million, including the impact of assumption updates. Net realized gains on commercial mortgage and other loans were $72 million for the year ended in 2013, were primarily driven by a net decrease in the loan loss reserve of $38 million, mostly driven by payoffs and quality rating upgrades. For additional information regarding our commercial mortgage and other loan loss reserves, see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality below.

Net realized losses on derivatives were $445 million in 2014, compared to net realized losses of $5,488 million in 2013. The net derivative losses in 2014 primarily reflect net losses of $2,627 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts. Also contributing were net losses of $500 million on foreign currency derivatives used to hedge portfolio assets in our Japan business, primarily due to the weakening of the Japanese yen against the U.S. dollar and other currencies. These losses were partially offset by gains of $1,502 million on interest rate derivatives used to manage duration as long-term interest rates decreased; $869 million gains on other foreign currency derivatives primarily associated with hedges of portfolio assets in our U.S. business and hedges of future income of non-U.S. businesses (predominantly in Japan) as the U.S. dollar strengthened against various currencies; and $166 million gains of fees earned on fee-based synthetic GICs which are accounted for as derivatives. The net derivative

losses in 2013 primarily reflect net losses of $4,195 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts as well as net mark-to-market losses of $987 million on interest rate derivatives used to manage duration as long-term interest rates increased. Also contributing were net losses $794 million on foreign currency derivatives used to hedge portfolio assets in our Japan business, primarily due to the weakening of the Japanese yen against the U.S. dollar and other currencies. Partially offsetting these losses were net gains of $472 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, predominantly in Japan, due to the strengthening of the U.S. dollar against the Japanese yen.

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 other-than-temporary impairments of $21 million on real estate and joint ventures and partnership investments. Net realized gains on other investments were $61 million in 2013 and included net gains of $73 million, primarily within our Corporate and Other segment, partially offset by other-than-temporary impairments of $12 million on real estate and joint ventures and partnership investments.

Related adjustments include the portions of Realized investment gains (losses), net that are included in adjusted operating income and the portions of Other income and Net investment income that are excluded from adjusted operating income. These adjustments are made to arrive at Realized investment gains (losses), net, and related adjustments which are excluded from adjusted operating income. Results for 2014 include a net negative related adjustment of $4,063 million, compared to a net negative related adjustment of $4,518 million for 2013. The adjustments in both years were primarily driven by the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations for which the foreign currency exposure is economically matched and offset in AOCI, and by settlements on interest rate and currency derivatives. We have implemented a new reporting structure in Gibraltar Life, effective for financial reporting beginning in the first quarter of 2015, which will minimize future volatility in reported U.S. GAAP earnings arising from foreign currency remeasurement. For additional information, see Results of Operations for Financial Services Businesses by Segment International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of products denominated in non-local currencies above.

Charges that relate to Realized investment gains (losses), net, and related adjustments are also excluded from adjusted operating income, and may be reflected as net charges or net benefits. Results for 2014 include net related charges of $542 million, compared to net related benefits of $1,807 million in 2013. Both periods results were driven by the impact of derivative activity on the amortization of deferred policy acquisition and other costs and certain policyholder reserves. For additional information, see Note 22 to the Consolidated Financial Statements.

During 2014, we recorded other-than-temporary impairments of $83 million in earnings, compared to $174 million in 2013. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2014	2013
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 22	$ 111
Private fixed maturity securities	14	39
Total fixed maturity securities	36	150
Equity securities	26	12
Other invested assets(2)	21	12
Total	$ 83	$ 174

(1) Excludes the portion of other-than-temporary impairments recorded in "Other comprehensive income (loss)," representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships and real estate investments.

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	Year Ended December 31,	
	2014	2013
	(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)		
Due to credit events or adverse conditions of the respective issuer(2)	$ 24	$ 80
Due to other accounting guidelines(3)	12	70
Total	$ 36	$ 150

(1) Excludes the portion of other-than-temporary impairment recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where securities with losses from foreign currency exchange rate movements approach maturity or where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity security other-than-temporary impairments in 2014 were concentrated in the utility, consumer cyclical, and finance sectors within corporate securities. These other-than-temporary impairments were primarily related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity security other-than-temporary impairments in 2013 were concentrated in asset-backed securities collateralized by sub-prime mortgages and in the utility, communications, and consumer non-cyclical sectors within corporate securities. These other-than-temporary impairments were primarily related to intent to sell securities, or related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

Equity security other-than-temporary impairments in 2014 and 2013 were primarily driven by circumstances where the decline in value was maintained for one year or greater or due to the extent and duration of declines in values.

Closed Block Business

For the Closed Block Business, net realized investment gains were $1,161 million in 2014, compared to net realized investment gains of $232 million in 2013.

Net realized gains on fixed maturity securities were $441 million in 2014, compared to net realized gains of $120 million in 2013, as set forth in the following table:

	Year Ended December 31,	
	2014	2013
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 471	$ 300
Private bond prepayment premiums	39	33
Total gross realized investment gains	510	333

Gross realized investment losses:				
Net other-than-temporary impairments recognized in earnings(2)		(20)		(49)
Gross losses on sales and maturities(1)		(37)		(149)
Credit related losses on sales		(12)		(15)
Total gross realized investment losses		(69)		(213)
Realized investment gains (losses), net Fixed Maturity Securities	$	441	$	120
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$	434	$	151

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk objectives.

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(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net realized gains on equity securities were $431 million and $314 million for the years ended 2014 and 2013, respectively, and included net gains on sales of equity securities of $437 million and $317 million, respectively, partially offset by other-than-temporary-impairments of $6 million and $3 million, respectively. See below for additional information regarding the other-than-temporary impairments of equity securities in 2014 and 2013.

Net realized gains on commercial mortgage and other loans for the year ended 2014 were $31 million, primarily driven by a net decrease in the loan loss reserve of $32 million, including the impact of assumption updates. Net realized gains on commercial mortgage and other loans were $7 million for the year ended 2013, primarily related to a net decrease in the loan loss reserve. For additional information regarding our loan loss reserves, see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality below.

Net realized gains on derivatives were $263 million in 2014, compared to net realized losses of $200 million in 2013. Derivative gains in 2014 primarily reflect net gains of $182 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar strengthened against the euro; net gains of $72 million on interest rate derivatives primarily used to manage duration as long term interest rates decreased; and net gains of $45 million on TBA forward contracts as interest rates declined. These gains are partially offset by losses of $41 million on terminated capital cash flow hedges due to debt extinguishment. Derivative losses in 2013 primarily reflect net losses of $106 million on interest rate derivatives primarily used to manage duration as long term interest rates increased as well as losses of $74 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened against the euro.

During 2014, we recorded other-than-temporary impairments of $31 million in earnings, compared to other-than-temporary impairments of $62 million recorded in earnings in 2013. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2014	2013
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 13	$ 28
Private fixed maturity securities	7	21
Total fixed maturity securities	20	49
Equity securities	6	3
Other invested assets(2)	5	10
Total	$ 31	$ 62

(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships.

	Year Ended December 31,	
	2014	2013
	(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business(1)		

Due to credit events or adverse conditions of the respective issuer(2)	$	19	$	44
Due to other accounting guidelines		1		5
Total	$	20	$	49

(1) Excludes the portion of other-than-temporary impairment 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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(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

Fixed maturity security other-than-temporary impairments in 2014 were concentrated in the consumer cyclical and foreign government securities sectors within corporate securities and in asset-backed securities collateralized by sub-prime mortgages. Fixed maturity security other-than-temporary impairments in 2013 were concentrated in asset-backed securities collateralized by sub-prime mortgages and in the utility and consumer non-cyclical sectors within corporate securities.

Equity security other-than-temporary impairments in 2014 and 2013 were primarily due to circumstances where the decline in value was maintained for one year or greater or due to the extent and duration of declines in values.

2013 to 2012 Annual Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses were $5,438 million in 2013, compared to net realized investment losses of $1,684 million in 2012.

Net realized losses on fixed maturity securities were $213 million in 2013, compared to net realized losses of $140 million in 2012, as set forth in the following table:

	Year Ended December 31,	
	2013	2012
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 1,172	$ 375
Private bond prepayment premiums	66	23
Total gross realized investment gains	1,238	398
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(150)	(263)
Gross losses on sales and maturities(1)	(1,270)	(247)
Credit related losses on sales	(31)	(28)
Total gross realized investment losses	(1,451)	(538)
Realized investment gains (losses), net Fixed Maturity Securities	$ (213)	$ (140)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ (98)	$ 128

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net losses on sales and maturities of fixed maturity securities of $98 million in 2013 were primarily driven by losses on sales of securities due to changes in interest rates subsequent to the acquisition of securities that were sold, partially offset by gains on sales within our International Insurance segment initiated for purposes of duration management as well as from surrenders of fixed annuities denominated in Australian and U.S. dollars. Net gains on sales and maturities of fixed maturity securities of $128 million in 2012 were primarily due to sales within our International Insurance, Retirement and Individual Annuities segments. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2013 and 2012.

Net realized gains on equity securities were $130 million in 2013 and included net gains on sales of equity securities of $142 million, primarily within our International Insurance segment, partially offset by

other-than-temporary impairments of $12 million. Net realized losses on equity securities were $54 million in 2012, including other-than-temporary impairments of $104 million, partially offset by net gains on sales of equity securities of $50 million, primarily within our Corporate and Other operations. See below for additional information regarding the other-than-temporary impairments of equity securities in 2013 and 2012.

Net realized gains on commercial mortgage and other loans were $72 million and $92 million for the years ended in 2013 and 2012, respectively. Both years gains were primarily related to a net decrease in the loan loss reserves primarily driven by payoffs and quality rating upgrades. For additional information regarding our commercial mortgage and other loan loss reserves, see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality below.

Net realized losses on derivatives were $5,488 million in 2013, compared to net realized losses of $1,552 million in 2012. The net derivative losses in 2013 primarily reflect net losses of $4,195 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts as well as net mark-to-market losses of $987 million on interest rate derivatives used to manage duration as long-term interest rates increased. Also contributing to the net derivative losses were net losses of $794 million on foreign currency derivatives used to hedge portfolio assets in our Japan business primarily due to the weakening of the Japanese yen against the U.S. dollar and other currencies. Partially offsetting these losses were net gains of $472 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, predominantly in Japan, due to the strengthening of the U.S. dollar against the Japanese yen. The net derivative losses in 2012 primarily reflect net losses of $1,829 million on product related embedded derivatives and related hedge positions primarily associated with certain variable annuity contracts. Also contributing to the net derivative losses were net losses of $254 million on foreign currency forward contracts used to hedge portfolio assets in our Japan business primarily due to the weakening of the Japanese yen against the U.S. dollar and other currencies. Partially offsetting these losses were net gains of $121 million primarily representing fees earned on fee-based synthetic guaranteed investment contracts, which are accounted for as derivatives, and net gains of $342 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, predominantly in Japan, due to the strengthening of the U.S dollar against the Japanese yen.

Net realized gains on other investments were $61 million in 2013 and included net gains of $73 million, primarily within our Corporate and Other segment, partially offset by other-than-temporary impairments of $12 million on real estate and joint ventures and partnership investments. Net realized losses on other investments were $30 million in 2012, which included other-than-temporary impairments of $74 million on real estate, joint ventures and partnership investments, partially offset by a $41 million gain related to the sale of a real estate investment.

Related adjustments for 2013 included a net negative related adjustment of $4,518 million, compared to a net negative related adjustment of $1,982 million for 2012. The adjustments in both years reflect the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations for which the foreign currency exposure is economically matched and offset in AOCI.

Related charges for 2013 included net related benefits of $1,807 million, compared to net related benefits of $857 million in 2012. The impacts in both years reflect the portion of amortization of deferred policy acquisition and other costs relating to changes in value of embedded derivatives and related hedge positions associated with certain variable annuity contracts.

During 2013, we recorded other-than-temporary impairments of $174 million in earnings, compared to $441 million in 2012. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31, 2013	2012
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 111	$ 219
Private fixed maturity securities	39	44
Total fixed maturity securities	150	263
Equity securities	12	104
Other invested assets(2)	12	74
Total	$ 174	$ 441

(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships and real estate investments.

	Year Ended December 31, 2013	2012
	(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)		
Due to credit events or adverse conditions of the respective issuer(2)	$ 80	$ 108
Due to other accounting guidelines(3)	70	155
Total	$ 150	$ 263

(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where securities with losses from foreign currency exchange rate movements approach maturity.

Fixed maturity security other-than-temporary impairments in 2013 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and in the utility, communications, and consumer non-cyclical sectors within corporate securities. These other-than-temporary impairments were primarily related to intent to sell securities or related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity security other-than-temporary impairments in 2012 were concentrated in the consumer non-cyclical, technology, and utility sectors within corporate securities and, to a lesser extent, within asset-backed securities collateralized by sub-prime mortgages. These other-than-temporary impairments were primarily related to securities with unrealized losses from foreign currency exchange rate movements that are approaching maturity or related to securities with liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

Equity security other-than-temporary impairments in 2013 were primarily driven by circumstances where the decline in value was maintained for one year or greater or due to the extent and duration of declines in values. Equity security other-than-temporary impairments in 2012 were primarily driven by circumstances where the decline in value was maintained for one year or greater or where we intended to sell the security.

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Closed Block Business

For the Closed Block Business, net realized investment gains were $232 million in 2013, compared to net realized investment gains of $243 million in 2012.

Net realized gains on fixed maturity securities were $120 million in 2013, compared to net realized gains of $103 million in 2012, as set forth in the following table:

	Year Ended December 31,	
	2013	2012
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 300	$ 243
Private bond prepayment premiums	33	18
Total gross realized investment gains	333	261
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(49)	(74)
Gross losses on sales and maturities(1)	(149)	(56)
Credit related losses on sales	(15)	(28)
Total gross realized investment losses	(213)	(158)
Realized investment gains (losses), net Fixed Maturity Securities	$ 120	$ 103
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 151	$ 187

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net realized gains on equity securities were $314 million in 2013 and included net gains on sales of equity securities of $317 million, partially offset by other-than-temporary impairments of $3 million. Net realized gains on equity securities were $78 million in 2012 and included net gains on sales of equity securities of $99 million, partially offset by other-than-temporary impairments of $21 million. See below for additional information regarding the other-than-temporary impairments of equity securities in 2013 and 2012.

Net realized gains on commercial mortgage and other loans were $7 million and $2 million for the years ended 2013 and 2012, respectively. Both years primarily related to a net decrease in the loan loss reserve. For additional information regarding our loan loss reserves, see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality below.

Net realized losses on derivatives were $200 million in 2013, compared to net realized gains of $52 million in 2012. Derivative losses in 2013 primarily reflect net losses of $106 million on interest rate derivatives primarily used to manage duration as long term interest rates increased as well as losses of $74 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened against the euro. Derivative gains in 2012 primarily reflect net gains of $80 million on interest rate derivatives primarily used to manage duration and net gains of $26 million on TBA forward contracts as interest rates declined, partially offset by net losses of $16 million on credit default swaps as credit spreads tightened and net losses of $42 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened against the euro and other currencies.

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During 2013, we recorded other-than-temporary impairments of $62 million in earnings, compared to other-than-temporary impairments of $99 million in 2012. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2013	2012
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 28	$ 56
Private fixed maturity securities	21	18
Total fixed maturity securities	49	74
Equity securities	3	21
Other invested assets(2)	10	4
Total	$ 62	$ 99

(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships.

	Year Ended December 31,	
	2013	2012
	(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business(1)		
Due to credit events or adverse conditions of the respective issuer(2)	$ 44	$ 72
Due to other accounting guidelines	5	2
Total	$ 49	$ 74

(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

Fixed maturity security other-than-temporary impairments in 2013 were concentrated in asset-backed securities collateralized by sub-prime mortgages and in the utility and consumer non-cyclical sectors within corporate securities. Fixed maturity security other-than-temporary impairments in 2012 were concentrated in asset-backed securities collateralized by sub-prime mortgages and in the utility and capital goods sectors within corporate securities and reflect adverse financial conditions of the respective issuers.

Equity security other-than-temporary impairments in 2013 and 2012 were primarily due to circumstances where the decline in value was maintained for one year or greater.

General Account Investments

We maintain diversified investment portfolios in our general account to support our liabilities to customers in our Financial Services Businesses and the Closed Block Business, as well as our other general liabilities. Our general account does not include: (1) assets of our derivative operations; (2) assets of our asset management operations, including assets managed for third parties; and (3) those assets classified as Separate account assets on our balance sheet.

The general account portfolios are managed pursuant to the distinct objectives and investment policy statements of the Financial Services Businesses and the Closed Block Business. The primary investment objectives of the Financial Services Businesses include:

hedging the market risk characteristics of the major product liabilities and other obligations of the Company;

- optimizing investment income yield within risk constraints over time; and

- for certain portfolios, optimizing total return, including both investment income yield and capital appreciation, within risk constraints over time, while managing the market risk exposures associated with the corresponding product liabilities.

We pursue our objective to optimize investment income yield for the Financial Services Businesses over time through: (1) the investment of net operating cash flow, including new product premium inflows, and proceeds from investment sales, repayments and prepayments, into investments with attractive risk-adjusted yields, and (2) where appropriate, the sale of lower yielding investments, either to meet various cash flow needs or to manage the portfolio s risk exposure profile with respect to duration, credit, currency and other risk factors, while considering the impact on taxes and capital.

The primary investment objectives of the Closed Block Business include:

- providing for the reasonable dividend expectations of the participating policyholders within the Closed Block and the Class B shareholders; and

- optimizing total return, including both investment income yield and capital appreciation, within risk constraints, while managing the market risk exposures associated with the major products in the Closed Block.

As discussed in Overview above, for reporting periods commencing after December 31, 2014, we will no longer refer to the Financial Services Businesses or the Closed Block Business. The Closed Block, along with additional assets and liabilities held outside the Closed Block, will be reported as the Closed Block division. The Class B share repurchase did not change the investment objectives of the Closed Block and the assets of the Closed Block division will continue to be managed separately from the assets of our other businesses.

Our portfolio management approach, while emphasizing our investment income yield and asset/liability risk management objectives, also takes into account the capital and tax implications of portfolio activity, our assertions regarding our ability and intent to hold equity securities to recovery, and our lack of any intention or requirement to sell debt securities before anticipated recovery. For a further discussion of our policies regarding other-than-temporary impairments, including our assertions regarding our ability and intent to hold equity securities to recovery and any intention or requirement to sell debt securities before anticipated recovery, see Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities and Equity Securities Other-than-Temporary Impairments of Equity Securities, below.

Management of Investments

The Investment Committee of our Board of Directors oversees our proprietary investments, including our general account portfolios. It also regularly reviews performance and risk positions. Our Chief Investment Officer Organization (CIO Organization) works with our Risk Management group to develop the investment policies for the general account portfolios of our domestic and international insurance subsidiaries, and directs and oversees management of the general account portfolios within risk limits and exposure ranges approved annually by the Investment Committee.

The CIO Organization, including related functions within our insurance subsidiaries, works closely with product actuaries and Risk Management to understand the characteristics of our products and their associated market risk exposures. This information is incorporated into the development of target asset portfolios that hedge market risk exposures associated with the liability characteristics and establish investment risk exposures, within tolerances prescribed by Prudential s investment risk limits, on which we expect to earn an attractive risk-adjusted return. We develop asset strategies for specific classes of product liabilities and attributed or accumulated surplus, each with distinct risk characteristics. Market risk exposures associated with the liabilities include interest rate risk which is addressed through the duration characteristics of the target asset mix, and currency risk which is addressed by the currency profile of the target asset mix. In certain of our smaller markets, outside of the U.S. and Japan, capital markets limitations hinder our ability to hedge interest rate exposure to the same extent we do for our U.S. and Japan businesses and lead us to accept a higher degree of interest rate risk in these smaller portfolios. General account portfolios typically include allocations to credit and other investment risks as a means to enhance investment yields and returns over time.

Most of our products can be categorized into the following three classes:

- interest-crediting products for which the rates credited to customers are periodically adjusted to reflect market and competitive forces and actual investment experience, such as fixed annuities and universal life insurance;
- participating individual and experience-rated group products in which customers participate in actual investment and business results through annual dividends, interest or return of premium; and
- products with fixed or guaranteed terms, such as traditional whole life and endowment products, guaranteed investment contracts, funding agreements and payout annuities.

Our total investment portfolio is composed of a number of operating portfolios. Each operating portfolio backs a specific set of liabilities and the portfolios have a target asset mix that supports the liability characteristics, including duration, cash flow, liquidity needs and other criteria. As of December 31, 2014, the average duration of our general account investment portfolios attributable to the domestic Financial Services Businesses, including the impact of derivatives, is between 6 and 7 years. As of December 31, 2014, the average duration of our general account portfolios attributable to our Japanese insurance operations, including the impact of derivatives, is between approximately 10 and 11 years, and represents a blend of yen-denominated and U.S. and Australian dollar-denominated investments, which have distinct average durations. Our asset/liability management process has enabled us to manage our portfolios through several market cycles.

We implement our portfolio strategies primarily through investment in a broad range of fixed income assets, including government and agency securities, public and private corporate bonds and structured securities, and commercial mortgage loans. In addition, we hold allocations of non-coupon assets, which include equity securities and other long-term investments such as joint ventures and limited partnerships, real estate held through direct ownership, and seed money investments in separate accounts.

We manage our public fixed maturity portfolio to a risk profile directed or overseen by the CIO Organization and Risk Management groups and to a profile that also reflects the local market environments impacting both our domestic and international insurance portfolios. The return that we earn on the portfolio will be reflected both as investment income and also as realized gains or losses on investments.

We use privately-placed corporate debt securities and commercial mortgage loans, which consist of well-underwritten mortgages on diversified properties in terms of geography, property type and borrowers, to enhance the yield on our portfolio and to improve the overall diversification of the portfolios. Private placements typically offer enhanced yields due to an illiquidity premium and generally offer enhanced credit protection in the form of covenants. Our origination capability offers the opportunity to lead transactions and gives us the opportunity for better terms, including covenants and call protection, and to take advantage of innovative deal structures.

Derivative strategies are employed in the context of our risk management framework to enhance our ability to manage interest rate and currency risk exposures of the asset portfolio relative to the liabilities and to manage credit and equity positions in the investment portfolios. For a discussion of our risk management process, see Quantitative and Qualitative Disclosures About Market Risk below.

Our portfolio asset allocation reflects our emphasis on diversification across asset classes, sectors, and issuers. The CIO Organization, directly and through related functions within the insurance subsidiaries, implements portfolio strategies primarily through various asset management units within Prudential s Asset Management segment. Activities of the Asset Management segment on behalf of the general account portfolios

are directed and overseen by the CIO Organization and monitored by Risk Management for compliance with investment risk limits.

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, policy loans, and non-coupon investments as defined above. The composition of our general account

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reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our Asset Management segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor.

The following tables set forth the composition of the investments of our general account apportioned between the Financial Services Businesses and the Closed Block Business as of the dates indicated.

	December 31, 2014			
	Financial Services Businesses	Closed Block Business ($ in millions)	Total	% of Total
Fixed maturities:				
Public, available-for-sale, at fair value	$ 220,539	$ 28,626	$ 249,165	61.0%
Public, held-to-maturity, at amortized cost	2,000	0	2,000	0.5
Private, available-for-sale, at fair value	34,738	15,039	49,777	12.2
Private, held-to-maturity, at amortized cost	575	0	575	0.1
Trading account assets supporting insurance liabilities, at fair value	20,263	0	20,263	5.0
Other trading account assets, at fair value	1,456	350	1,806	0.4
Equity securities, available-for-sale, at fair value	6,331	3,522	9,853	2.4
Commercial mortgage and other loans, at book value	36,538	9,475	46,013	11.2
Policy loans, at outstanding balance	6,798	4,914	11,712	2.9
Other long-term investments(1)	7,169	2,766	9,935	2.4
Short-term investments	5,874	2,037	7,911	1.9
Total general account investments	342,281	66,729	409,010	100.0%
Invested assets of other entities and operations(2)	10,976	0	10,976	
Total investments	$ 353,257	$ 66,729	$ 419,986	

	December 31, 2013			
	Financial Services Businesses	Closed Block Business ($ in millions)	Total	% of Total
Fixed maturities:				
Public, available-for-sale, at fair value	$ 212,689	$ 27,401	$ 240,090	61.3%
Public, held-to-maturity, at amortized cost	2,500	0	2,500	0.7
Private, available-for-sale, at fair value	30,650	15,811	46,461	11.9
Private, held-to-maturity, at amortized cost	812	0	812	0.2
Trading account assets supporting insurance liabilities, at fair value	20,827	0	20,827	5.3
Other trading account assets, at fair value	1,341	342	1,683	0.4
Equity securities, available-for-sale, at fair value	6,019	3,884	9,903	2.5
Commercial mortgage and other loans, at book value	31,133	9,673	40,806	10.4
Policy loans, at outstanding balance	6,753	5,013	11,766	3.0
Other long-term investments(1)	7,172	2,024	9,196	2.4
Short-term investments	5,445	1,866	7,311	1.9
Total general account investments	325,341	66,014	391,355	100.0%
Invested assets of other entities and operations(2)	6,818	0	6,818	
Total investments	$ 332,159	$ 66,014	$ 398,173	

(1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership and other miscellaneous investments. For additional information regarding these investments, see Other Long-Term Investments below.
(2) Includes invested assets of our asset management and derivative operations. Excludes assets of our asset management operations that are managed for third parties and those assets classified as Separate account assets on our balance sheet. For additional information regarding these investments, see Invested Assets of Other Entities and Operations below.

The increase in general account investments attributable to the Financial Services Businesses in 2014 was primarily due to portfolio growth driven by the reinvestment of net investment income and net business inflows

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as well as a net increase in fair value driven by a decrease in interest rates in the U.S. and Japan, partially offset by the translation impact of the yen weakening against the U.S. dollar. The general account investments attributable to the Closed Block Business also increased in 2014, primarily due to a net increase in fair value driven by a decrease in interest rates in the U.S. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 20 to the Consolidated Financial Statements.

We have substantial insurance operations in Japan, with 41% and 43% of our Financial Services Businesses general account investments relating to our Japanese insurance operations as of December 31, 2014 and 2013, respectively.

The following table sets forth the composition related to the investments of our Japanese insurance operations general account as of the dates indicated.

	December 31,	
	2014	2013
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	$ 111,991	$ 112,501
Public, held-to-maturity, at amortized cost	2,000	2,500
Private, available-for-sale, at fair value	8,835	6,762
Private, held-to-maturity, at amortized cost	575	812
Trading account assets supporting insurance liabilities, at fair value	1,910	1,925
Other trading account assets, at fair value	672	884
Equity securities, available-for-sale, at fair value	2,504	2,557
Commercial mortgage and other loans, at book value	8,215	6,581
Policy loans, at outstanding balance	2,146	2,280
Other long-term investments(1)	1,606	1,576
Short-term investments	406	541
Total Japanese general account investments	$ 140,860	$ 138,919

(1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership, derivatives, and other miscellaneous investments.

The increase in general account investments related to our Japanese insurance operations in 2014 was primarily attributable to portfolio growth as a result of net business inflows and the reinvestment of net investment income as well as a net increase in fair value driven by declining interest rates, partially offset by the translation impact of the yen weakening against the U.S. dollar.

The functional currency of our Japanese insurance subsidiaries is the yen and, although the majority of the Japanese general account is invested in yen-denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. and Australian dollars.

As of December 31, 2014, our Japanese insurance operations had $48.9 billion, at fair value, of investments denominated in U.S. dollars, including $3.6 billion that were hedged to yen through third party derivative contracts and $31.9 billion that support liabilities denominated in U.S. dollars, with the remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. As of December 31, 2013, our Japanese insurance operations had $42.6 billion, at fair value, of investments denominated in U.S. dollars, including $3.5 billion that were hedged to yen through third party derivative contracts and $29.9 billion that support liabilities denominated in U.S. dollars, with the

remainder hedging our foreign currency exchange rate exposure on U.S. dollar-equivalent equity. The $6.3 billion increase in the fair value of U.S. dollar-denominated investments from December 31, 2013, is primarily attributable to a net increase in fair value driven by an increase in the hedge level used in our yen hedging strategy and declining interest rates, as well as portfolio growth as a result of business inflows and the reinvestment of net investment income.

Our Japanese insurance operations had $10.4 billion and $8.5 billion, at fair value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of December 31,

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2014 and 2013, respectively. The $1.9 billion increase in the fair value of Australian dollar-denominated investments from December 31, 2013, is primarily attributable to a net increase in fair value driven by declining interest rates, as well as portfolio growth as a result of business inflows and the reinvestment of net investment income.

For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations and a discussion of our yen hedging strategy, see Results of Operations for Financial Services Businesses by Segment International Insurance Division, above.

Investment Results

The following tables set forth the income yield and investment income for each major investment category of our general account for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest related items, such as settlements of duration management swaps which are included in realized gains and losses.

	Year Ended December 31, 2014					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	3.90%	$ 8,762	5.18%	$ 1,917	4.08%	$ 10,679
Trading account assets supporting insurance liabilities	3.75	765	0.00	0	3.75	765
Equity securities	5.97	275	3.40	79	5.11	354
Commercial mortgage and other loans	4.80	1,565	5.45	524	4.95	2,089
Policy loans	5.08	341	6.07	292	5.49	633
Short-term investments and cash equivalents	0.21	26	1.03	8	0.25	34
Other investments	9.10	753	13.35	342	10.11	1,095
Gross investment income before investment expenses	4.04	12,487	5.54	3,162	4.28	15,649
Investment expenses	(0.14)	(362)	(0.27)	(155)	(0.16)	(517)
Investment income after investment expenses	3.90%	12,125	5.27%	3,007	4.12%	15,132
Investment results of other entities and operations(2)		124		0		124
Total investment income		$ 12,249		$ 3,007		$ 15,256

	Year Ended December 31, 2013					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	3.79%	$ 8,575	5.30%	$ 2,002	4.01%	$ 10,577
Trading account assets supporting insurance liabilities	3.79	775	0.00	0	3.79	775
Equity securities	6.19	256	3.40	82	5.16	338
Commercial mortgage and other loans	5.04	1,403	5.85	552	5.24	1,955
Policy loans	4.82	316	6.01	295	5.33	611
Short-term investments and cash equivalents	0.22	30	0.95	7	0.25	37
Other investments	7.04	553	10.22	228	7.75	781

Gross investment income before investment expenses	3.89	11,908	5.52	3,166	4.15	15,074
Investment expenses	(0.12)	(308)	(0.26)	(150)	(0.14)	(458)
Investment income after investment expenses	3.77%	11,600	5.26%	3,016	4.01%	14,616
Investment results of other entities and operations(2)		113		0		113
Total investment income		$ 11,713		$ 3,016		$ 14,729

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	Year Ended December 31, 2012					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	3.72%	$ 7,645	5.52%	$ 2,143	4.01%	$ 9,788
Trading account assets supporting insurance liabilities	3.98	778	0.00	0	3.98	778
Equity securities	6.14	249	3.34	84	5.07	333
Commercial mortgage and other loans	5.48	1,375	6.38	589	5.72	1,964
Policy loans	4.73	293	6.03	304	5.31	597
Short-term investments and cash equivalents	0.24	33	1.24	7	0.26	40
Other investments	4.04	268	8.31	183	5.12	451
Gross investment income before investment expenses	3.80	10,641	5.69	3,310	4.12	13,951
Investment expenses	(0.12)	(273)	(0.27)	(157)	(0.15)	(430)
Investment income after investment expenses	3.68%	10,368	5.42%	3,153	3.97%	13,521
Investment results of other entities and operations(2)		140		0		140
Total investment income		$ 10,508		$ 3,153		$ 13,661

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets.

(2) Includes investment income of our asset management operations and derivative operations, as described below under Invested Assets of Other Entities and Operations.

See below for a discussion of the change in the Financial Services Businesses yields. The net investment income yield attributable to the Closed Block Business for 2014 remained relatively flat compared to 2013, as higher income from non-coupon investments was mostly offset by lower fixed income reinvestment rates.

The decrease in net investment income yield attributable to the Closed Block Business s portfolio for 2013, compared to 2012, was primarily due to the impact of lower interest rates on floating rate investments due to rate resets and lower fixed income reinvestment rates.

The following table sets forth the income yield and investment income for each major investment category of the Financial Services Businesses general account, excluding the Japanese insurance operations portion of the general account which is presented separately below, for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest related items, such as settlements of duration management swaps which are included in realized gains and losses.

	Year Ended December 31,					
	2014		2013		2012	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.69%	$ 5,461	4.65%	$ 5,306	5.09%	$ 4,328
Trading account assets supporting insurance liabilities	3.96	730	3.99	741	4.18	742
Equity securities	6.49	191	7.30	174	8.70	184
Commercial mortgage and other loans	4.96	1,271	5.27	1,145	5.87	1,138
Policy loans	5.66	253	5.45	228	5.62	194

Short-term investments and cash equivalents	0.21	22	0.23	26	0.26	28
Other investments	10.03	598	7.54	383	3.13	87
Gross investment income before investment expenses	4.63	8,526	4.52	8,003	4.77	6,701
Investment expenses	(0.14)	(198)	(0.12)	(152)	(0.11)	(89)
Investment income after investment expenses	4.49%	8,328	4.40%	7,851	4.66%	6,612
Investment results of other entities and operations(2)		125		113		140
Total investment income		$ 8,453		$ 7,964		$ 6,752

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(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets.
(2) Includes investment income of our asset management operations and derivative operations.

The increase in net investment income yield attributable to the Financial Services Businesses general account, excluding Japanese operations portfolio, for 2014, compared to 2013, was primarily the result of higher income from non-coupon investments and from reinvestments within certain asset portfolios into higher yielding securities, primarily during the second half of 2013.

The decrease in net investment income yield attributable to the Financial Services Businesses general account, excluding Japanese operations portfolio, for 2013, compared to 2012, was primarily the result of lower interest rates on floating rate investments due to rate resets and lower fixed maturity reinvestment rates. The decrease also reflects the addition of assets from the significant pension risk transfer transactions that closed in the fourth quarter of 2012, as well as the Hartford transaction, which reflect market yields at the time of acquisition. These decreases were partially offset by higher income from non-coupon investments.

The following table sets forth the income yield and investment income for each major investment category of our Japanese insurance operations general account for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest related items, such as settlements of duration management swaps which are included in realized gains and losses.

	Year Ended December 31,					
	2014		2013		2012	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	3.06%	$ 3,301	2.91%	$ 3,269	2.75%	$ 3,317
Trading account assets supporting insurance liabilities	1.80	35	1.81	34	2.04	36
Equity securities	5.06	84	4.69	82	3.36	65
Commercial mortgage and other loans	4.20	294	4.21	258	4.15	237
Policy loans	3.93	88	3.70	88	3.60	99
Short-term investments and cash equivalents	0.24	4	0.19	4	0.16	5
Other investments	6.67	155	6.12	170	4.71	181
Gross investment income before investment expenses	3.20	3,961	3.02	3,905	2.82	3,940
Investment expenses	(0.13)	(164)	(0.12)	(156)	(0.13)	(184)
Total investment income	3.07%	$ 3,797	2.90%	$ 3,749	2.69%	$ 3,756

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets.

The increase in net investment income yield on the Japanese insurance portfolio for 2014, compared to 2013, was primarily attributable to a higher allocation into U.S. dollar-denominated securities and higher income from non-coupon investments.

The increase in net investment income yield on the Japanese insurance portfolio for 2013, compared to 2012, was primarily attributable to more favorable results from non-coupon investments and growth in higher-yielding assets supporting both U.S. and Australian dollar-denominated products, partially offset by lower fixed maturity reinvestment rates in both the U.S. and Japan.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts was approximately $33.9 billion and

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$31.9 billion, for the years ended December 31, 2014 and 2013, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts was approximately $8.9 billion and $8.1 billion for the years ended December 31, 2014 and 2013, respectively. The Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars.

For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see Results of Operations for Financial Services Businesses by Segment International Insurance Division.

Fixed Maturity Securities

Fixed Maturity Securities by Contractual Maturity Date

The following table sets forth the breakdown of the amortized cost of our fixed maturity securities portfolio in total by contractual maturity as of December 31, 2014.

	December 31, 2014			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
Corporate & government securities:				
Maturing in 2015	$ 7,397	3.3%	$ 1,403	3.5%
Maturing in 2016	8,797	3.9	1,249	3.1
Maturing in 2017	10,374	4.6	1,691	4.3
Maturing in 2018	11,379	5.0	1,845	4.6
Maturing in 2019	10,239	4.5	1,811	4.6
Maturing in 2020	9,289	4.1	1,802	4.5
Maturing in 2021	11,269	4.9	2,533	6.4
Maturing in 2022	9,406	4.1	1,972	5.0
Maturing in 2023	9,654	4.2	1,788	4.5
Maturing in 2024	9,898	4.3	1,651	4.2
Maturing in 2025	4,258	1.9	770	1.9
Maturing in 2026 and beyond	103,296	45.3	12,742	32.0
Total corporate & government securities	205,256	90.1	31,257	78.6
Asset-backed securities	7,094	3.1	3,861	9.7
Commercial mortgage-backed securities	9,688	4.3	3,835	9.6
Residential mortgage-backed securities	5,747	2.5	821	2.1
Total fixed maturities	$ 227,785	100.0%	$ 39,774	100.0%

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Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Financial Services Businesses as of the dates indicated and the associated gross unrealized gains and losses.

Fixed Maturity Securities Financial Services Businesses

Industry(1)	December 31, 2014 Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	December 31, 2013(7) Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
				(in millions)				
Corporate securities:								
Finance	$ 20,569	$ 1,984	$ 55	$ 22,498	$ 20,770	$ 1,340	$ 326	$ 21,784
Consumer non-cyclical	20,956	2,822	141	23,637	22,023	1,905	653	23,275
Utility	16,144	2,149	82	18,211	15,873	1,129	579	16,423
Capital goods	10,170	1,348	67	11,451	10,021	905	265	10,661
Consumer cyclical	9,447	1,129	37	10,539	9,951	746	255	10,442
Foreign agencies	5,186	1,227	38	6,375	4,872	791	79	5,584
Energy	11,395	1,135	275	12,255	11,092	817	358	11,551
Communications	6,465	1,021	41	7,445	6,322	617	209	6,730
Basic industry	6,003	640	71	6,572	6,236	398	207	6,427
Transportation	5,718	769	18	6,469	5,720	481	116	6,085
Technology	3,474	389	30	3,833	3,589	286	103	3,772
Industrial other	2,746	333	21	3,058	2,424	195	53	2,566
Total corporate securities	118,273	14,946	876	132,343	118,893	9,610	3,203	125,300
Foreign government(3)	70,327	11,286	111	81,502	76,171	7,522	257	83,436
Residential mortgage-backed	5,747	466	4	6,209	6,885	414	35	7,264
Asset-backed securities(4)	7,094	292	78	7,308	6,578	160	172	6,566
Commercial mortgage-backed	9,688	344	24	10,008	9,772	360	104	10,028
U.S. Government	11,493	3,468	5	14,956	9,885	1,459	71	11,273
State & Municipal(5)	5,163	693	3	5,853	2,932	223	130	3,025
Total(6)	$ 227,785	$ 31,495	$ 1,101	$ 258,179	$ 231,116	$ 19,748	$ 3,972	$ 246,892

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes $328 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2014, compared to $265 million of gross unrealized gains and $24 million of gross unrealized losses as of December 31, 2013, on securities classified as held-to-maturity.
(3) As of December 31, 2014 and 2013, based on amortized cost, 76% and 80%, respectively, represent Japanese government bonds held by our Japanese insurance operations, with no other individual country representing more than 10% and 9%, respectively, of the balance.
(4) Includes securities collateralized by sub-prime mortgages. See Asset-Backed Securities below.
(5) Includes securities related to the Build America Bonds program.
(6) Excluded from the table above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see Invested Assets of Other Entities and Operations below. Also excluded from the table above are fixed maturity securities classified as trading. See Trading Account Assets Supporting Insurance Liabilities and Other Trading Account Assets for additional information.
(7) Prior period s amounts are presented on a basis consistent with the current period presentation.

The increase in net unrealized gains from December 31, 2013 to December 31, 2014, was primarily due to a net decrease in interest rates in both the U.S. and Japan.

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The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Closed Block Business as of the dates indicated and the associated gross unrealized gains and losses.

Fixed Maturity Securities Closed Block Business

Industry(1)	December 31, 2014 Amortized Cost	December 31, 2014 Gross Unrealized Gains	December 31, 2014 Gross Unrealized Losses	December 31, 2014 Fair Value	December 31, 2013(5) Amortized Cost	December 31, 2013(5) Gross Unrealized Gains	December 31, 2013(5) Gross Unrealized Losses	December 31, 2013(5) Fair Value
	(in millions)							
Corporate securities:								
Utility	$ 3,603	$ 595	$ 13	$ 4,185	$ 3,937	$ 425	$ 43	$ 4,319
Consumer non-cyclical	4,616	503	21	5,098	4,693	480	47	5,126
Finance	4,099	395	18	4,476	3,665	304	15	3,954
Consumer cyclical	2,720	267	15	2,972	3,272	317	18	3,571
Capital goods	2,249	250	15	2,484	2,505	250	19	2,736
Energy	2,426	221	46	2,601	2,526	255	20	2,761
Communications	1,364	229	3	1,590	1,415	144	12	1,547
Basic industry	1,335	120	12	1,443	1,303	90	23	1,370
Transportation	1,367	153	8	1,512	1,346	120	13	1,453
Industrial other	966	70	15	1,021	1,366	66	10	1,422
Technology	756	64	7	813	615	52	2	665
Foreign agencies	501	49	6	544	349	23	6	366
Total corporate securities	26,002	2,916	179	28,739	26,992	2,526	228	29,290
Asset-backed securities(2)	3,861	52	56	3,857	3,747	34	141	3,640
Commercial mortgage-backed	3,835	92	14	3,913	3,960	60	59	3,961
U.S. Government	4,311	851	1	5,161	3,824	279	26	4,077
Residential mortgage-backed	821	51	0	872	1,080	55	6	1,129
Foreign government(3)	387	63	5	445	361	55	8	408
State & Municipal	557	121	0	678	664	51	7	708
Total(4)	$ 39,774	$ 4,146	$ 255	$ 43,665	$ 40,628	$ 3,060	$ 475	$ 43,213

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes securities collateralized by sub-prime mortgages. See Asset-Backed Securities below.
(3) As of December 31, 2014 and 2013, based on amortized cost, no individual foreign country represented more than 7% and 11%, respectively.
(4) The table above excludes fixed maturity securities classified as trading. See Other Trading Account Assets for additional information.
(5) Prior period s amounts are presented on a basis consistent with the current period presentation.

The increase in net unrealized gains from December 31, 2013 to December 31, 2014, was primarily due to a net decrease in U.S. interest rates.

As of December 31, 2014, the Company has direct and indirect energy exposure of approximately $18 billion on a market value basis with a carrying value of approximately $17 billion, primarily through public and private corporate bonds, substantially all of which are investment grade. The Company could be exposed to future valuation declines or impairments if oil prices remain at current or lower levels for an extended period of time.

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Asset-Backed Securities

The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Financial Services Businesses, by credit quality, as of the dates indicated.

Asset-Backed Securities at Amortized Cost Financial Services Businesses

	December 31, 2014 Lowest Rating Agency Rating						
	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2013(4)
	(in millions)						
Collateralized by sub-prime mortgages	$ 0	$ 1	$ 115	$ 87	$ 1,424	$ 1,627	$ 1,882
Collateralized loan obligations	3,779	42	0	0	0	3,821	2,654
Collateralized by education loans(1)	25	357	0	0	0	382	401
Collateralized by credit cards	262	0	6	0	0	268	497
Collateralized by auto loans	492	0	0	0	0	492	568
Other asset-backed securities(2)	156	123	88	28	109	504	576
Total asset-backed securities(3)	$ 4,714	$ 523	$ 209	$ 115	$ 1,533	$ 7,094	$ 6,578

(1) Approximately 98% of the $382 million of education loans included above carry a Department of Education guaranty as of December 31, 2014.
(2) Includes asset-backed securities collateralized by aircraft, equipment leases, franchises and timeshares.
(3) Excluded from the table above are asset-backed securities held outside the general account in other entities and operations. Also excluded from the table above are asset-backed securities classified as trading.
(4) Prior period s amounts are presented on a basis consistent with the current period presentation.

Asset-Backed Securities at Fair Value Financial Services Businesses

	December 31, 2014 Lowest Rating Agency Rating						
	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2013(4)
	(in millions)						
Collateralized by sub-prime mortgages	$ 0	$ 1	$ 112	$ 87	$ 1,542	$ 1,742	$ 1,827
Collateralized loan obligations	3,817	45	0	0	5	3,867	2,656
Collateralized by education loans(1)	26	372	0	0	0	398	392
Collateralized by credit cards	271	0	6	0	0	277	510
Collateralized by auto loans	493	0	0	0	0	493	571
Other asset-backed securities(2)	166	125	98	28	114	531	610
Total asset-backed securities(3)	$ 4,773	$ 543	$ 216	$ 115	$ 1,661	$ 7,308	$ 6,566

(1) Approximately 98% of the $398 million of education loans included above carry a Department of Education guaranty as of December 31, 2014.
(2) Includes asset-backed securities collateralized by aircraft, equipment leases, franchises and timeshares.
(3) Excluded from the table above are asset-backed securities held outside the general account in other entities and operations. Also excluded from the table above are asset-backed securities classified as trading.
(4) Prior period s amounts are presented on a basis consistent with the current period presentation.

The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2014, including Standard & Poor s, Moody s and Fitch. In making our investment decisions, rather than relying solely on the rating agencies evaluations, we assign internal ratings to our asset-backed securities based upon our dedicated asset-backed securities unit s independent evaluation of the underlying collateral and securitization structure, including any guarantees from monoline bond insurers.

While there is no market standard definition for securities collateralized by sub-prime mortgages, we define sub-prime mortgages as residential mortgages that are originated to weaker-quality obligors as indicated by weaker credit scores, as well as mortgages with higher loan-to-value ratios or limited documentation.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses decreased from $1.882 billion as of December 31, 2013, to $1.627 billion as of December 31, 2014, primarily reflecting sales and principal paydowns. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses were $55 million as of December 31, 2014, and $144 million as of December 31, 2013. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages, see Realized Investment Gains and Losses above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 20 to the Consolidated Financial Statements.

The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Closed Block Business, by credit quality, as of the dates indicated.

Asset-Backed Securities at Amortized Cost Closed Block Business

	December 31, 2014 Lowest Rating Agency Rating						
	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2013
	(in millions)						
Collateralized by sub-prime mortgages	$ 0	$ 69	$ 85	$ 57	$ 830	$ 1,041	$ 1,431
Collateralized by auto loans	1,006	0	0	0	0	1,006	687
Collateralized loan obligations	1,131	0	0	0	0	1,131	660
Collateralized by credit cards	126	0	0	0	0	126	336
Collateralized by education loans(1)	20	378	0	0	0	398	429
Other asset-backed securities(2)	69	35	49	1	5	159	204
Total asset-backed securities(3)	$ 2,352	$ 482	$ 134	$ 58	$ 835	$ 3,861	$ 3,747

(1) Approximately 98% of the $398 million of education loans included above carry a Department of Education guaranty as of December 31, 2014.
(2) Includes asset-backed securities collateralized by franchises, equipment leases, aircraft, manufacturing and timeshares.
(3) Excluded from the table above are asset-backed securities classified as trading.

Asset-Backed Securities at Fair Value Closed Block Business

	December 31, 2014 Lowest Rating Agency Rating						
	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2013
	(in millions)						
Collateralized by sub-prime mortgages	$ 0	$ 68	$ 84	$ 55	$ 808	$ 1,015	$ 1,313
Collateralized by auto loans	1,006	0	0	0	0	1,006	689
Collateralized loan obligations	1,124	0	0	0	4	1,128	665
Collateralized by credit cards	126	0	0	0	0	126	337
Collateralized by education loans(1)	20	396	0	0	0	416	425
Other asset-backed securities(2)	69	35	52	1	9	166	211

Total asset-backed securities(3)	$ 2,345	$ 499	$ 136	$ 56	$ 821	$ 3,857	$ 3,640

(1) Approximately 98% of the $416 million of education loans included above carry a Department of Education guaranty as of December 31, 2014.
(2) Includes asset-backed securities collateralized by franchises, equipment leases, aircraft, manufacturing and timeshares.
(3) Excluded from the table above are asset-backed securities classified as trading.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages, as defined above, attributable to the Closed Block Business decreased from $1.431 billion as of December 31, 2013, to $1.041

billion as of December 31, 2014, primarily reflecting sales and principal paydowns. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business were $47 million as of December 31, 2014, and $127 million as of December 31, 2013. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages, see Realized Investment Gains and Losses above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 20 to the Consolidated Financial Statements.

Residential Mortgage-Backed Securities

The following tables set forth the amortized cost of our residential mortgage-backed securities attributable to the Financial Services Businesses and Closed Block Business as of the dates indicated.

Residential Mortgage-Backed Securities at Amortized Cost

	December 31, 2014			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
By security type:				
Agency pass-through securities(1)	$ 5,118	89.1%	$ 731	89.0%
Collateralized mortgage obligations	629	10.9	90	11.0
Total residential mortgage-backed securities	$ 5,747	100.0%	$ 821	100.0%
Portion rated AA or higher(2)	$ 5,672	98.7%	$ 731	89.0%

	December 31, 2013(3)			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
By security type:				
Agency pass-through securities(1)	$ 6,005	87.2%	$ 966	89.4%
Collateralized mortgage obligations	880	12.8	114	10.6
Total residential mortgage-backed securities	$ 6,885	100.0%	$ 1,080	100.0%
Portion rated AA or higher(2)	$ 6,769	98.3%	$ 966	89.4%

(1) As of December 31, 2014, of these securities, for the Financial Services Businesses, $3.855 billion are supported by U.S. government and $1.263 billion are supported by foreign governments. As of December 31, 2013, of these securities, for the Financial Services Businesses, $4.388 billion were supported by the U.S. government and $1.617 billion were supported by foreign governments. For the Closed Block Business, all of the securities are supported by the U.S. government as of both December 31, 2014 and 2013.
(2) Based on lowest external rating agency rating.
(3) Prior period s amounts are presented on a basis consistent with the current period presentation.

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Commercial Mortgage-Backed Securities

The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Financial Services Businesses as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost Financial Services Businesses

	December 31, 2014 Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2013
				(in millions)			
2014	$ 2,356	$ 27	$ 0	$ 0	$ 0	$ 2,383	$ 0
2013	2,361	111	0	9	0	2,481	2,579
2012 2009	239	290	0	0	0	529	529
2008 2007	235	44	17	5	0	301	952
2006	2,476	89	7	4	0	2,576	3,132
2005	1,329	56	0	3	0	1,388	2,116
2004 & Prior	22	3	4	0	1	30	464
Total commercial mortgage-backed securities(2)(3)(4)	$ 9,018	$ 620	$ 28	$ 21	$ 1	$ 9,688	$ 9,772

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of December 31, 2014, including Standard & Poor s, Moody s, Fitch and Realpoint.
(2) Excluded from the table above are commercial mortgage-backed securities held outside the general account in other entities and operations. Also excluded from the table above are commercial mortgage-backed securities classified as trading.
(3) Included in the table above, as of December 31, 2014, are downgraded super senior securities with amortized cost of $139 million in AA and $24 million in A.
(4) Included in the table above, as of December 31, 2014, are agency commercial mortgage-backed securities with amortized cost of $437 million, all rated AA.

Commercial Mortgage-Backed Securities at Fair Value Financial Services Businesses

	December 31, 2014 Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2013
				(in millions)			
2014	$ 2,443	$ 31	$ 0	$ 0	$ 0	$ 2,474	$ 0
2013	2,448	114	0	9	0	2,571	2,501
2012 2009	236	311	0	0	0	547	534
2008 2007	238	46	17	4	0	305	976
2006	2,538	93	7	4	0	2,642	3,283
2005	1,359	63	0	5	0	1,427	2,203
2004 & Prior	33	4	4	0	1	42	531
Total commercial mortgage-backed securities(2)(3)	$ 9,295	$ 662	$ 28	$ 22	$ 1	$ 10,008	$ 10,028

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of December 31, 2014, including Standard & Poor s, Moody s, Fitch and Realpoint.
(2) Excluded from the table above are commercial mortgage-backed securities held outside the general account in other entities and operations. Also excluded from the table above are commercial mortgage-backed securities classified as trading.
(3) Included in the table above, as of December 31, 2014, are agency commercial mortgage-backed securities with fair value of $463 million, all rated AA.

Included in the tables above are commercial mortgage-backed securities collateralized by U.S. properties, all related to commercial mortgage-backed securities held by our Japanese insurance operations, with an

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amortized cost of $207 million in AAA, $44 million in AA, and $7 million in BBB as of December 31, 2014, and $380 million in AAA, $93 million in AA, $26 million in A, and $8 million in BBB as of December 31, 2013. Commercial mortgage-backed securities collateralized by non-U.S. properties are immaterial for both years.

The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Closed Block Business as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost Closed Block Business

	December 31, 2014 Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2013
				(in millions)			
2014	$ 1,275	$ 48	$ 0	$ 0	$ 0	$ 1,323	$ 0
2013	825	206	0	9	0	1,040	1,333
2012 2009	190	59	0	0	0	249	452
2008 2007	96	0	0	1	5	102	371
2006	818	1	0	0	0	819	1,038
2005	274	26	0	0	0	300	710
2004 & Prior	0	0	1	1	0	2	56
Total commercial mortgage-backed securities(2)(3)	$ 3,478	$ 340	$ 1	$ 11	$ 5	$ 3,835	$ 3,960

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of December 31, 2014, including Standard & Poor s, Moody s, Fitch and Realpoint.
(2) Included in the table above, as of December 31, 2014, are downgraded super senior securities with amortized cost of $27 million in AA.
(3) Included in the table above, as of December 31, 2014, are agency commercial mortgage-backed securities with amortized cost of $313 million in AA.

Commercial Mortgage-Backed Securities at Fair Value Closed Block Business

	December 31, 2014 Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2013
				(in millions)			
2014	$ 1,306	$ 49	$ 0	$ 0	$ 0	$ 1,355	$ 0
2013	841	216	0	9	0	1,066	1,294
2012 2009	190	62	0	0	0	252	443
2008 2007	96	0	0	1	16	113	381
2006	823	1	0	0	0	824	1,062
2005	275	26	0	0	0	301	725
2004 & Prior	0	0	1	1	0	2	56
Total commercial mortgage-backed securities(2)	$ 3,531	$ 354	$ 1	$ 11	$ 16	$ 3,913	$ 3,961

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of December 31, 2014, including Standard & Poor s, Moody s, Fitch and Realpoint.
(2) Included in the table above, as of December 31, 2014, are agency commercial mortgage-backed securities with fair value of $326 million in AA.

Fixed Maturity Securities Credit Quality

The Securities Valuation Office (SVO) of the NAIC, evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called NAIC Designations. In

general, NAIC Designations of 1 highest quality, or 2 high quality, include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody s or BBB- or higher by Standard & Poor s. NAIC Designations of 3 through 6 generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody s and BB+ or lower by Standard & Poor s. The NAIC Designations for commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages, are based on security level expected losses as modeled by an independent third-party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized.

As a result of time lags between the funding of investments, the finalization of legal documents, and the completion of the SVO filing process, the fixed maturity portfolio generally includes securities that have not yet been rated by the SVO as of each balance sheet date. Pending receipt of SVO ratings, the categorization of these securities by NAIC Designation is based on the expected ratings indicated by internal analysis.

Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency, an agency of the Japanese government. The Financial Services Agency has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the Financial Services Agency s credit quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody s, Standard & Poor s, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

The following table sets forth our fixed maturity portfolio by NAIC Designation attributable to the Financial Services Businesses as of the dates indicated.

Fixed Maturity Securities Financial Services Businesses

(1)(2)	December 31, 2014				December 31, 2013			
NAIC Designation	**Amortized Cost**	**Gross Unrealized Gains(3)**	**Gross Unrealized Losses(3)(4)**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains(3)**	**Gross Unrealized Losses(3)(4)**	**Fair Value**
				(in millions)				
1	$ 176,122	$ 25,715	$ 564	$ 201,273	$ 179,543	$ 15,520	$ 2,811	$ 192,252
2	42,111	4,934	402	46,643	42,659	3,563	938	45,284
Subtotal High or Highest Quality Securities(5)	218,233	30,649	966	247,916	222,202	19,083	3,749	237,536
3	6,619	537	58	7,098	6,321	412	152	6,581
4	2,228	204	50	2,382	2,058	191	51	2,198
5	441	83	24	500	322	31	16	337
6	264	22	3	283	213	31	4	240
Subtotal Other Securities(6)(7)	9,552	846	135	10,263	8,914	665	223	9,356
Total Fixed Maturities	$ 227,785	$ 31,495	$ 1,101	$ 258,179	$ 231,116	$ 19,748	$ 3,972	$ 246,892

(1) Reflects equivalent ratings for investments of the international insurance operations.
(2) Includes, as of December 31, 2014 and 2013, 825 securities with amortized cost of $3,993 million (fair value, $4,291 million) and 306 securities with amortized cost of $806 million (fair value, $831 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.

(3) Includes $328 million of gross unrealized gains and $1 million gross unrealized losses as of December 31, 2014, compared to $265 million of gross unrealized gains and $24 million of gross unrealized losses as of December 31, 2013, on securities classified as held-to-maturity.
(4) As of December 31, 2014, includes gross unrealized losses of $71 million on public fixed maturities and $64 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2013, includes gross unrealized losses of $181 million on public fixed maturities and $42 million on private fixed maturities considered to be other than high or highest quality.
(5) On an amortized cost basis, as of December 31, 2014, includes $189,713 million of public fixed maturities and $28,520 million of private fixed maturities and, as of December 31, 2013, includes $196,058 million of public fixed maturities and $26,144 million of private fixed maturities.

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(6) On an amortized cost basis, as of December 31, 2014, includes $5,712 million of public fixed maturities and $3,840 million of private fixed maturities and, as of December 31, 2013, includes $5,710 million of public fixed maturities and $3,204 million of private fixed maturities.
(7) On an amortized cost basis, as of December 31, 2014, securities considered below investment grade based on lowest of external rating agency ratings, totaled $11.2 billion, or 5% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.

The following table sets forth our fixed maturity portfolio by NAIC Designation attributable to the Closed Block Business as of the dates indicated.

Fixed Maturity Securities Closed Block Business

(1)	December 31, 2014				December 31, 2013			
NAIC Designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value
				(in millions)				
1	$ 23,520	$ 2,654	$ 96	$ 26,078	$ 23,521	$ 1,543	$ 307	$ 24,757
2	12,816	1,363	96	14,083	14,166	1,359	118	15,407
Subtotal High or Highest Quality Securities(3)	36,336	4,017	192	40,161	37,687	2,902	425	40,164
3	2,278	100	24	2,354	1,957	106	23	2,040
4	1,000	13	25	988	760	24	21	763
5	112	7	13	106	138	9	5	142
6	48	9	1	56	86	19	1	104
Subtotal Other Securities(4)(5)	3,438	129	63	3,504	2,941	158	50	3,049
Total Fixed Maturities	$ 39,774	$ 4,146	$ 255	$ 43,665	$ 40,628	$ 3,060	$ 475	$ 43,213

(1) Includes, as of December 31, 2014 and 2013, 153 securities with amortized cost of $2,726 million (fair value, $2,977 million) and 56 securities with amortized cost of $822 million (fair value, $837 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.
(2) As of December 31, 2014, includes gross unrealized losses of $28 million on public fixed maturities and $35 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2013, includes gross unrealized losses of $35 million on public fixed maturities and $15 million on private fixed maturities considered to be other than high or highest quality.
(3) On an amortized cost basis, as of December 31, 2014, includes $24,304 million of public fixed maturities and $12,032 million of private fixed maturities and, as of December 31, 2013, includes $24,642 million of public fixed maturities and $13,045 million of private fixed maturities.
(4) On an amortized cost basis, as of December 31, 2014, includes $1,605 million of public fixed maturities and $1,833 million of private fixed maturities and, as of December 31, 2013, includes $1,407 million of public fixed maturities and $1,534 million of private fixed maturities.
(5) On an amortized cost basis, as of December 31, 2014, securities considered below investment grade based on lowest of external rating agency ratings, totaled $4.5 billion, or 11% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.

Credit Derivative Exposure to Public Fixed Maturities

In addition to the credit exposure from public fixed maturities noted above, we sell credit derivatives to enhance the return on our investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments.

In a credit derivative, we may sell credit protection on an identified name or a broad based index, and in return receive a quarterly premium. The majority of the underlying reference names in single name and index credit derivatives where we have sold credit protection, as well as all the counterparties to these agreements, are investment grade credit quality and our credit derivatives have a remaining term to maturity of ten years or less. The premium or credit spread generally corresponds to the difference between the yield on the reference name s (or index s underlying reference names) public fixed maturity cash instruments and swap rates at the time the agreement is executed. Credit derivative contracts are recorded at fair value with changes in fair value, including the premium received, recorded in Realized investment gains (losses), net.

As of December 31, 2014, the Financial Services Business had $1.5 billion notional amount of exposure where we have sold credit protection through credit derivatives, reported at fair value as a liability of $2 million. As of December 31, 2013, the Financial Services Business had no outstanding sell protection credit derivatives. The Financial Services Business adjusted operating income from credit derivatives we sold was $3 million for both the years ended December 31, 2014 and 2013, which represents net premiums received/(paid) attributable to each period. This excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance. See Note 21 to the Consolidated Financial Statements for additional information regarding this derivative.

As of both December 31, 2014 and 2013, the Closed Block Business had $5 million notional amount of exposure where we have sold credit protection through credit derivatives, reported at fair value as an asset of less than $1 million.

In addition to selling credit protection, we have purchased credit protection using credit derivatives in order to hedge specific credit exposures in our investment portfolio. As of December 31, 2014 and 2013, the Financial Services Businesses had $405 million and $1.1 billion of notional amounts, reported at fair value as a liability of $11 million and of $33 million, respectively. The Financial Services Business adjusted operating income from credit derivatives we purchased was a loss of $22 million and a loss of $29 million for the years ended December 31, 2014 and 2013, respectively, which represents net premiums received/(paid) attributable to each period. See Note 21 to the Consolidated Financial Statements for additional information regarding credit derivatives and an overall description of our derivative activities.

As of December 31, 2014 and 2013, the Closed Block Business had $168 million and $275 million of notional amounts, reported at fair value as a liability of $6 million and $9 million, respectively.

Other-Than-Temporary Impairments of Fixed Maturity Securities

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. Our public fixed maturity asset managers formally review all public fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or company or industry specific concerns.

For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish checks and balances for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our private fixed maturity asset managers formally review all private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or company or industry specific concerns. For additional information regarding our policies regarding other-than-temporary impairments for fixed maturity securities, see Note 2 to the Consolidated Financial Statements.

Other-than-temporary impairments of general account fixed maturity securities attributable to the Financial Services Businesses that were recognized in earnings were $36 million and $150 million for the years ended December 31, 2014 and 2013, respectively.

Other-than-temporary impairments of fixed maturity securities attributable to the Closed Block Business that were recognized in earnings were $20 million and $49 million for the years ended December 31, 2014 and 2013, respectively. For a further discussion of other-than-temporary impairments, see Realized Investment Gains and Losses above.

Trading Account Assets Supporting Insurance Liabilities

Certain products included in the Retirement and International Insurance segments are experience-rated, meaning that we expect the investment results associated with these products will ultimately accrue to contractholders. The investments supporting these experience-rated products, excluding commercial mortgage

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and other loans, are primarily classified as trading and are reflected on the balance sheet as Trading account assets supporting insurance liabilities, at fair value. Realized and unrealized gains and losses for these investments are reported in Other income, and excluded from adjusted operating income. Investment income for these investments is reported in Net investment income, and is included in adjusted operating income.

The following table sets forth the composition of this portfolio as of the dates indicated.

	December 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 196	$ 196	$ 697	$ 697
Fixed maturities:				
Corporate securities	11,922	12,439	12,109	12,616
Commercial mortgage-backed securities	2,505	2,546	2,417	2,441
Residential mortgage-backed securities	1,640	1,676	1,857	1,830
Asset-backed securities	1,180	1,198	1,096	1,107
Foreign government bonds	621	650	579	596
U.S. government authorities and agencies and obligations of U.S. states	303	372	303	341
Total fixed maturities	18,171	18,881	18,361	18,931
Equity securities	896	1,186	913	1,199
Total trading account assets supporting insurance liabilities	$ 19,263	$ 20,263	$ 19,971	$ 20,827

As a percentage of amortized cost, 75% and 77% of the portfolio was publicly traded as of December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, 92% and 93% of the fixed maturity portfolio was considered high or highest quality, respectively, based on NAIC or equivalent rating. As of December 31, 2014, $1.590 billion of the residential mortgage-backed securities were publicly traded agency pass-through securities, which are supported by implicit or explicit government guarantees, of which more than 99% have credit ratings of A or higher. Collateralized mortgage obligations, including approximately $41 million secured by ALT-A mortgages, represented the remaining $50 million of residential mortgage-backed securities, of which 41% have credit ratings of A or better and 59% are BBB and below. For a discussion of changes in the fair value of our trading account assets supporting insurance liabilities, see Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments, above.

Other Trading Account Assets

Other trading account assets consist primarily of certain financial instruments that contain an embedded derivative where we elected to classify the entire instrument as a trading account asset rather than bifurcate. These instruments are carried at fair value, with realized and unrealized gains and losses reported in Other income, and excluded from adjusted operating income. Interest and dividend income from these investments is reported in Net investment income, and is included in adjusted operating income.

The following table sets forth the composition of our other trading account assets as of the dates indicated.

	December 31, 2014	December 31, 2013

	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)							
Short-term investments and cash equivalents	$ 1	$ 1	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Fixed maturities	849	878	186	198	576	612	166	185
Equity securities(1)	502	577	135	152	646	729	138	157
Total other trading account assets	$ 1,352	$ 1,456	$ 321	$ 350	$ 1,222	$ 1,341	$ 304	$ 342

(1) Included in equity securities are perpetual preferred stock securities that have characteristics of both debt and equity securities.

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Included in the $849 million of fixed maturities attributable to the Financial Services Businesses as of December 31, 2014, on an amortized cost basis, are $35 million of asset-backed securities, 60% of which have credit ratings of A or above, 18% have BBB credit ratings, and the remaining 22% have BB and below credit ratings. There were no asset-backed securities included in the $186 million of fixed maturities attributable to the Closed Block Business, on an amortized cost basis, as of December 31, 2014.

Commercial Mortgage and Other Loans

Investment Mix

As of December 31, 2014 and 2013, we held approximately 11% and 10% of our general account investments in commercial mortgage and other loans, respectively. This percentage is net of a $115 million and $212 million allowance for losses as of December 31, 2014 and 2013, respectively.

The following table sets forth the composition of our commercial mortgage and other loans portfolio, based on carrying value before the allowance for losses, as of the dates indicated.

	December 31, 2014		December 31, 2013	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Commercial and agricultural mortgage loans	$ 34,882	$ 9,446	$ 29,164	$ 9,677
Uncollateralized loans	1,045	45	1,259	44
Residential property loans	392	0	544	0
Other collateralized loans	318	0	330	0
Total commercial mortgage and other loans(1)	$ 36,637	$ 9,491	$ 31,297	$ 9,721

(1) Excluded from the table above are commercial mortgage and other loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage and other loans held outside the general account, see Invested Assets of Other Entities and Operations, below.

We originate commercial and agricultural mortgage loans using a dedicated investment staff and a network of independent companies through our various regional offices. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our experience in real estate and mortgage lending.

Uncollateralized loans primarily represent reverse dual currency loans and corporate loans which do not meet the definition of a security under authoritative accounting guidance.

Residential property loans primarily include Japanese recourse loans. Upon default of these recourse loans we can make a claim against the personal assets of the property owner, in addition to the mortgaged property. These loans are also backed by third party guarantors.

Other collateralized loans attributable to the Financial Services Businesses include collateralized structured loans and consumer loans.

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Composition of Commercial and Agricultural Mortgage Loans

Our commercial and agricultural mortgage loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of our general account investments in commercial and agricultural mortgage loans by geographic region and property type as of the dates indicated.

	December 31, 2014				December 31, 2013			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial and agricultural mortgage loans by region:								
U.S. Regions:								
Pacific	$ 10,951	31.4%	$ 3,131	33.2%	$ 9,089	31.1%	$ 3,230	33.4%
South Atlantic	6,939	19.9	1,789	18.9	5,671	19.4	1,711	17.7
Middle Atlantic	4,595	13.2	1,849	19.6	3,855	13.3	1,924	19.9
East North Central	2,662	7.6	669	7.1	2,678	9.2	725	7.4
West South Central	3,671	10.5	766	8.1	2,828	9.7	823	8.6
Mountain	1,646	4.7	205	2.2	1,448	5.0	278	2.9
New England	1,736	5.0	539	5.7	1,026	3.5	412	4.2
West North Central	580	1.7	78	0.8	555	1.9	104	1.1
East South Central	258	0.7	86	0.9	296	1.0	137	1.4
Subtotal-U.S.	33,038	94.7	9,112	96.5	27,446	94.1	9,344	96.6
Asia	693	2.0	0	0.0	723	2.5	0	0.0
Other	1,151	3.3	334	3.5	995	3.4	333	3.4
Total commercial and agricultural mortgage loans	$ 34,882	100.0%	$ 9,446	100.0%	$ 29,164	100.0%	$ 9,677	100.0%

	December 31, 2014				December 31, 2013			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial and agricultural mortgage loans by property type:								
Industrial	$ 6,266	18.0%	$ 1,361	14.4%	$ 5,778	19.8%	$ 1,612	16.7%
Retail	6,515	18.7	2,247	23.8	6,085	20.9	2,612	27.0
Office	7,111	20.4	2,488	26.3	5,389	18.5	2,359	24.4
Apartments/Multi-Family	8,536	24.4	1,449	15.3	6,031	20.7	1,287	13.3
Other	2,972	8.5	670	7.1	2,806	9.6	653	6.7
Agricultural properties	1,787	5.1	659	7.0	1,598	5.4	585	6.0
Hospitality	1,695	4.9	572	6.1	1,477	5.1	569	5.9
Total commercial and agricultural mortgage loans	$ 34,882	100.0%	$ 9,446	100.0%	$ 29,164	100.0%	$ 9,677	100.0%

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial and agricultural mortgage loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the loan amount is greater than the collateral value. A

smaller loan-to-value ratio indicates a greater excess of collateral value over the loan amount. The debt service coverage ratio compares a property s net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan s current debt payments. A larger debt service coverage ratio indicates a greater excess of net operating income over the debt service payments.

As of December 31, 2014, our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses had a weighted average debt service coverage ratio of 2.24

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times, and a weighted average loan-to-value ratio of 52%. As of December 31, 2014, approximately 94% of commercial and agricultural mortgage loans attributable to the Financial Services Businesses were fixed rate loans. As of December 31, 2014, our general account investments in commercial and agricultural mortgage loans attributable to the Closed Block Business had a weighted average debt service coverage ratio of 2.19 times, and a weighted average loan-to-value ratio of 52%. As of December 31, 2014, 99% of the commercial and agricultural mortgage loans attributable to the Closed Block Business were fixed rate loans. For those general account commercial and agricultural mortgage loans attributable to the Financial Services Businesses that were originated in 2014, the weighted average debt service coverage ratio was 2.49 times and the weighted average loan-to-value ratio was 58%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial and agricultural mortgage loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal quality rating is a key input in determining our allowance for loan losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial and agricultural mortgage loan portfolio attributable to the Financial Services Businesses included approximately $1.3 billion and $0.7 billion of such loans as of December 31, 2014 and 2013, respectively, and our commercial and agricultural mortgage loan portfolio attributable to the Closed Block Business included approximately $0.2 billion and $0.1 billion of such loans as of December 31, 2014 and 2013, respectively. All else being equal, these loans are inherently more risky than those collateralized by properties that have already stabilized. As of December 31, 2014, there are no loan-specific reserves related to these loans attributable to the Financial Services Businesses or the Closed Block Business. In addition, these unstabilized loans are included in the calculation of our portfolio reserve as discussed below. For information regarding similar loans we hold as part of our commercial and agricultural mortgage operations, see Invested Assets of Other Entities and Operations below.

The following tables set forth the gross carrying value of our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses and the Closed Block Business as of the dates indicated by loan-to-value and debt service coverage ratios.

Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Financial Services Businesses

	December 31, 2014 Debt Service Coverage Ratio			
Loan-to-Value Ratio	**Greater than 1.2x**	**1.0x to <1.2x**	**Less than 1.0x**	**Total Commercial and Agricultural Mortgage Loans**
	(in millions)			
0% 59.99%	$ 18,422	$ 573	$ 175	$ 19,170
60% 69.99%	10,460	433	210	11,103
70% 79.99%	3,634	501	21	4,156
Greater than 80%	155	100	198	453
Total commercial and agricultural mortgage loans	$ 32,671	$ 1,607	$ 604	$ 34,882

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Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Closed Block Business

Loan-to-Value Ratio	December 31, 2014 Debt Service Coverage Ratio Greater than 1.2x	1.0x to <1.2x	Less than 1.0x	Total Commercial and Agricultural Mortgage Loans
		(in millions)		
0% 59.99%	$ 6,272	$ 204	$ 35	$ 6,511
60% 69.99%	2,134	67	26	2,227
70% 79.99%	514	162	0	676
Greater than 80%	3	26	3	32
Total commercial and agricultural mortgage loans	$ 8,923	$ 459	$ 64	$ 9,446

The following table sets forth the breakdown of our commercial and agricultural mortgage loans by year of origination as of December 31, 2014.

	December 31, 2014			
	Financial Services Businesses		Closed Block Business	
Year of Origination	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
		($ in millions)		
2014	$ 7,713	22.1%	$ 1,470	15.6%
2013	8,635	24.8	1,395	14.8
2012	4,660	13.4	1,578	16.7
2011	4,601	13.2	1,254	13.3
2010	2,854	8.2	870	9.2
2009	769	2.2	222	2.3
2008	1,116	3.2	379	4.0
2007 & Prior	4,534	12.9	2,278	24.1
Total commercial and agricultural mortgage loans	$ 34,882	100.0%	$ 9,446	100.0%

Commercial Mortgage and Other Loans by Contractual Maturity Date

The following table sets forth the breakdown of our commercial mortgage and other loan portfolio by contractual maturity as of December 31, 2014.

	December 31, 2014			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
		($ in millions)		
Vintage				

Maturing in 2015	$ 1,377	3.8%	$ 347	3.7%
Maturing in 2016	3,388	9.2	774	8.2
Maturing in 2017	2,755	7.5	551	5.8
Maturing in 2018	4,196	11.5	1,168	12.3
Maturing in 2019	3,185	8.7	706	7.4
Maturing in 2020	3,909	10.7	1,125	11.9
Maturing in 2021	3,607	9.8	942	9.9
Maturing in 2022	2,240	6.1	859	9.0
Maturing in 2023	2,383	6.5	607	6.4
Maturing in 2024	2,411	6.6	749	7.9
Maturing in 2025	1,603	4.4	297	3.1
Maturing in 2026 and beyond	5,583	15.2	1,366	14.4
Total commercial mortgage and other loans	$ 36,637	100.0%	$ 9,491	100.0%

Commercial Mortgage and Other Loan Quality

Ongoing review of the portfolio is performed and loans are placed on watch list status based on a predefined set of criteria, where they are assigned to one of the following categories. We place loans on early warning status in cases where, based on our analysis of the loan s collateral, the financial situation of the borrower or tenants or other market factors, we believe a loss of principal or interest could occur. We classify loans as closely monitored when we determine there is a collateral deficiency or other credit events that may lead to a potential loss of principal or interest. Loans not in good standing are those loans where we have concluded that there is a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy. In our domestic operations, our workout and special servicing professionals manage the loans on the watch list. As described below, in determining our allowance for losses we evaluate each loan on the watch list to determine if it is probable that amounts due according to the contractual terms of the loan agreement will not be collected.

We establish an allowance for losses to provide for the risk of credit losses inherent in the lending process. The allowance includes loan specific reserves for loans that are determined to be impaired as a result of our loan review process, and a portfolio reserve for probable incurred but not specifically identified losses for loans which are not on the watch list. We define an impaired loan as a loan for which we estimate it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The loan specific portion of the loss allowance is based on our assessment as to ultimate collectability of loan principal and interest. Valuation allowances for an impaired loan are recorded based on the present value of expected future cash flows discounted at the loan s effective interest rate or based on the fair value of the collateral if the loan is collateral dependent. The portfolio reserve for incurred but not specifically identified losses considers the current credit composition of the portfolio based on the internal quality ratings mentioned above. The portfolio reserves are determined using past loan experience, including historical credit migration, loss probability, and loss severity factors by property type. These factors are reviewed and updated as appropriate. The valuation allowance for commercial mortgage and other loans can increase or decrease from period to period based on these factors.

Our general account investments in commercial mortgage and other loans attributable to the Financial Services Businesses, based upon the recorded investment gross of allowance for credit losses, was $36,637 million and $31,297 million as of December 31, 2014 and December 31, 2013, respectively. As a percentage of recorded investment gross of allowance, 99.8% of the assets were current for both periods.

Our general account investments in commercial mortgage and other loans attributable to the Closed Block Business, based upon the recorded investment gross of allowance for credit losses, was $9,491 million and $9,721 million as of December 31, 2014 and 2013, respectively. As a percentage of recorded investment gross of allowance, more than 99.9% of the assets were current for both periods.

The following table sets forth the change in valuation allowances for our commercial mortgage and other loan portfolio as of the dates indicated:

	December 31, 2014		December 31, 2013	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Allowance, beginning of year	$ 164	$ 48	$ 186	$ 58
Addition to/(release of) allowance for losses	(55)	(32)	10	(7)
Charge-offs, net of recoveries	(8)	0	(27)	(3)
Change in foreign exchange	(2)	0	(5)	0
Allowance, end of period	$ 99	$ 16	$ 164	$ 48

Loan specific reserve	$ 5	$ 0	$ 11	$ 3
Portfolio reserve	$ 94	$ 16	$ 153	$ 45

The decrease in the allowance for losses, for the year ended December 31, 2014, was primarily driven by the impact of assumption updates.

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Equity Securities

Investment Mix

The equity securities attributable to the Financial Services Businesses consist principally of investments in common and preferred stock of publicly-traded companies, as well as mutual fund shares. The following table sets forth the composition of our equity securities portfolio attributable to the Financial Services Businesses and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities Financial Services Businesses

	December 31, 2014				December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Non-redeemable preferred stocks	$ 23	$ 3	$ 1	$ 25	$ 32	$ 4	$ 1	$ 35
Mutual fund common stocks(1)	2,638	468	30	3,076	2,245	562	8	2,799
Other common stocks	2,064	1,190	24	3,230	2,277	920	12	3,185
Total equity securities(2)	$ 4,725	$ 1,661	$ 55	$ 6,331	$ 4,554	$ 1,486	$ 21	$ 6,019

(1) Includes mutual fund shares representing our interest in the underlying assets of certain of our separate account investments supporting corporate-owned life insurance. These mutual funds invest primarily in high yield bonds.
(2) Amounts presented exclude hedge funds and other alternative investments which are reported in Other long-term investments.

The following table sets forth the composition of our equity securities portfolio attributable to the Closed Block Business and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities Closed Block Business

	December 31, 2014				December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Non-redeemable preferred stocks	$ 3	$ 0	$ 0	$ 3	$ 1	$ 1	$ 0	$ 2
Mutual fund common stocks	8	8	0	16	8	6	0	14
Other common stocks	2,178	1,354	29	3,503	2,433	1,443	8	3,868
Total equity securities	$ 2,189	$ 1,362	$ 29	$ 3,522	$ 2,442	$ 1,450	$ 8	$ 3,884

Other-Than-Temporary Impairments of Equity Securities

For those equity securities classified as available-for-sale, we record unrealized gains and losses to the extent cost is different from estimated fair value. All securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. For additional information regarding our policies regarding other-than-temporary impairments for equity securities see Note 2 to the Consolidated Financial Statements.

Impairments of equity securities attributable to the Financial Services Businesses were $26 million and $12 million for the years ended December 31, 2014 and 2013, respectively. Impairments of equity securities attributable to the Closed Block Business were $6 million and $3 million for years ended December 31, 2014 and 2013, respectively. For a further discussion of impairments, see Realized Investment Gains and Losses above.

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Other Long-Term Investments

The following table sets forth the composition of "Other long-term investments," which primarily consists of investments in joint ventures and limited partnerships, other than operating joint ventures, as well as wholly-owned investment real estate and other investments, as of the dates indicated.

	December 31, 2014		December 31, 2013	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Joint ventures and limited partnerships:				
Real estate-related	$ 235	$ 495	$ 277	$ 481
Non-real estate-related(1)	4,267	2,173	4,141	1,863
Real estate held through direct ownership	1,795	0	1,559	0
Other(2)	872	98	1,195	(320)
Total other long-term investments	$ 7,169	$ 2,766	$ 7,172	$ 2,024

(1) Primarily includes investments in private equity and hedge funds.
(2) Primarily includes derivatives and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 14 to the Consolidated Financial Statements.

Invested Assets of Other Entities and Operations

"Invested Assets of Other Entities and Operations" includes investments held outside the general account and primarily represents investments associated with our asset management operations and derivative operations. Our derivative operations act on behalf of affiliates primarily to manage interest rate, foreign currency, credit, and equity exposures. Assets within our asset management operations that are managed for third parties and those assets classified as "Separate account assets" on our balance sheet are not included.

The following table sets forth the composition of the investments held outside the general account as of the dates indicated.

	December 31, 2014	December 31, 2013
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	$ 96	$ 242
Private, available-for-sale, at fair value	52	73
Other trading account assets, at fair value	9,068	4,770
Equity securities, available-for-sale, at fair value	8	7
Commercial mortgage and other loans, at book value(1)	419	202
Other long-term investments	986	1,132
Short-term investments	347	392

Total investments	$ 10,976	$ 6,818

(1) Book value is generally based on unpaid principal balance net of any allowance for losses, the lower of cost or fair value, or fair value, depending on the loan.

Other Trading Account Assets

Other trading account assets are primarily related to assets associated with consolidated variable interest entities, for which the Company is the investment manager, as well as our derivative operations used to manage interest rate, foreign currency, credit and equity exposures. The assets of the consolidated variable interest entities are generally offset by liabilities for which the fair value option has been elected. For further information on these consolidated variable interest entities, see Note 5 to the Consolidated Financial Statements.

Commercial Mortgage and Other Loans

Our asset management operations include our commercial mortgage operations, which provide 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.

As of December 31, 2014, we hold no commercial real estate held-for-sale related to foreclosed interim loans. The mortgage loans of our commercial mortgage operations are included in Commercial mortgage and other loans, with related derivatives and other hedging instruments primarily included in Other trading account assets and Other long-term investments.

Other Long-Term Investments

Other long-term investments primarily include strategic investments made as part of our asset management operations. We make these strategic investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. 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). As part of our asset management operations, we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds. Other long-term investments also include certain assets in consolidated investment funds where the Company is deemed to exercise control over the funds.

Liquidity and Capital Resources

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long term financial resources available to support the operations of our businesses, fund business growth, and provide a cushion to withstand adverse circumstances. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our businesses, general economic conditions and our access to the capital markets and the alternate sources of liquidity and capital described herein.

Effective and prudent liquidity and capital management is a priority across the organization. Management monitors the liquidity of Prudential Financial and its subsidiaries on a daily basis and projects borrowing and capital needs over a multi-year time horizon through our quarterly planning process. We believe that cash flows from the sources of funds available to us are sufficient to satisfy the current liquidity requirements of Prudential Financial and its subsidiaries, including under reasonably foreseeable stress scenarios. We have a capital management framework in place that governs the allocation of capital and approval of capital uses, and we forecast capital sources and uses on a quarterly basis. We also employ a Capital Protection Framework to ensure the availability of capital resources to maintain adequate capitalization on a consolidated basis and competitive risk-based capital ratios and solvency margins for our insurance subsidiaries under various stress scenarios.

Prudential Financial is a Designated Financial Company under the Dodd-Frank Act. As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the Federal Reserve Bank of Boston and to prudential regulatory standards, which include or will include requirements and limitations (some of which are the subject of ongoing rule-making) relating to risk-based capital, leverage, liquidity, stress-testing, overall risk management, resolution plans and early remediation; and may also include additional standards regarding capital, public disclosure, short-term debt limits, and other related subjects. In addition, the FSB has identified the Company as a G-SII. For information on these recent actions and their potential impact on us, see Business Regulation and Risk Factors .

During 2014, we took the following significant actions that impacted our liquidity and capital position:

On December 18, 2014, we redeemed the IHC Debt for an aggregate redemption price of $2.1 billion;

On December 1, 2014, we entered into a Share Repurchase Agreement with the holders of all of the outstanding shares of our Class B Stock, and on January 2, 2015, we repurchased and cancelled all of the outstanding shares of the Class B Stock for a cash purchase price of $650.8 million;

Prudential Insurance paid a $2.0 billion dividend to Prudential Holdings, LLC (PHLLC) in December 2014, of which $1.6 billion was utilized to fund the IHC Debt redemption and $0.4 billion was ultimately sent to Prudential Financial to fund a portion of the Class B Stock repurchase;

We repurchased $1.0 billion of shares of our Common Stock and declared and paid aggregate Common Stock dividends of $1,005 million;

We issued $1.8 billion of medium-term notes in order to refinance upcoming debt maturities and to provide for operating needs;

We obtained additional financing for Regulation XXX reserves by entering into a new external captive financing facility for $1.75 billion, of which $385 million is outstanding, and we restructured the terms of an existing $3.7 billion captive financing facility;

We obtained additional financing for Guideline AXXX reserves by increasing the available capacity under an external captive financing facility to $3.5 billion, increasing the amount outstanding under that facility to $1.8 billion and executing $650 million of financing with affiliates; and

We entered into financing transactions pursuant to which we issued $500 million of limited recourse notes and, in return, obtained $500 million of asset-backed notes. The asset-backed notes are held by an insurance subsidiary of Prudential Insurance to finance statutory surplus.

Capital

Our capital management framework is primarily based on statutory risk-based capital and solvency margin measures. Due to our diverse mix of businesses and applicable regulatory requirements, we apply certain refinements to the framework that are designed to more appropriately reflect risks associated with our businesses on a consistent basis across the Company.

We seek to capitalize all of our subsidiaries and businesses in accordance with their ratings targets, and we believe Prudential Financial s capitalization and use of financial leverage are consistent with those ratings targets. Our long-term senior debt rating targets for Prudential Financial are A for Standard & Poor s Rating Services, or S&P, Moody s Investors Service, Inc., or Moody s, and Fitch Ratings Ltd., or Fitch, and a for A.M. Best Company, or A.M. Best. Our financial strength rating targets for our life insurance companies are AA/Aa/AA for S&P, Moody s and Fitch, respectively, and A+ for A.M. Best. See Ratings below for a description of the potential impacts of ratings downgrades.

Capital Governance

Our capital management framework is ultimately reviewed and approved by our Board of Directors (the Board). The Board has adopted a capital policy that authorizes our Chairman and Chief Executive Officer and Vice Chairman to approve certain capital actions on behalf of the Company and to further delegate authority with respect to capital actions to appropriate officers. Any capital commitment that exceeds the

authority granted to senior management under the capital policy is separately authorized by the Board.

In addition, our Capital and Finance Committee (CFC) reviews the use and allocation of capital above certain threshold amounts to promote the efficient use of capital, consistent with our strategic objectives, ratings aspirations and other goals and targets. This management committee provides a multi-disciplinary due diligence review of specific initiatives or transactions requiring the use of capital, including mergers and acquisitions. The CFC also evaluates our annual capital and financing plan (and quarterly updates to this plan), as well as our capital, liquidity and financial position, borrowing plans, and related matters prior to the discussion of these items with the Board.

Capitalization

The primary components of capitalization for the Financial Services Businesses consist of the equity we attribute to the Financial Services Businesses and its outstanding capital debt, including junior subordinated debt.

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As shown in the table below, as of December 31, 2014, the Financial Services Businesses had $38.4 billion in capital, all of which was available to support the aggregate capital requirements of its three divisions and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital is consistent with our ratings targets.

	December 31,	
	2014	2013
	(in millions)	
Attributed Equity(1)	$ 25,099	$ 25,299
Junior subordinated debt (i.e. hybrid securities)	4,884	4,884
Other capital debt	8,451	5,345
Total capital	$ 38,434	$ 35,528

(1) Excludes AOCI. This amount may be subject to volatility due to, among other things, the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations, for which the foreign currency exposure is economically matched and offset in AOCI (see Results of Operations for Financial Services Businesses by Segment International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of products denominated in non-local currencies for additional information).

The increase in other capital debt from December 31, 2013 primarily reflects additional capital required as a result of the impact of our annual reviews and updates of assumptions on living benefit guarantees for certain variable annuity products, as well as the impact of lower interest rates, reflecting our management of interest rate risk through our Capital Protection Framework.

Insurance Regulatory Capital

We manage Prudential Insurance, Prudential of Japan, Gibraltar Life and our other domestic and international insurance subsidiaries to regulatory capital levels consistent with our AA ratings targets. We utilize the Risk-Based Capital (RBC) ratio as a primary measure of the capital adequacy of our domestic insurance subsidiaries and the solvency margin ratio as a primary measure of the capital adequacy of our Japanese insurance subsidiaries.

The Risk-Based Capital, or RBC, ratio is a primary measure of the capital adequacy of Prudential Insurance, which includes businesses in both the Financial Services Businesses and the Closed Block Business, and our other domestic insurance subsidiaries. RBC is calculated based on statutory financial statements and risk formulas consistent with the practices of the NAIC. RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer s products and liabilities, interest rate risks and general business risks. RBC ratio calculations are intended to assist insurance regulators in measuring an insurer s solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities but is available to the public.

The RBC ratios for Prudential Insurance and Prudential Annuities Life Assurance Corporation (PALAC) were 456% and 502%, respectively, as of December 31, 2013. As of December 31, 2014, the ratios for both of these subsidiaries were greater than 400%. In addition, we do not expect the reinsurance of the Closed Block to Prudential Legacy Insurance Company of New Jersey (PLIC), as discussed in Note 25 to the Consolidated Financial Statements, to result in a material change to Prudential Insurance s RBC ratio.

Similar to the RBC ratios that are employed by U.S. insurance regulators, regulatory authorities in the international jurisdictions in which we operate generally establish some form of minimum solvency margin requirements for insurance companies based on local statutory accounting practices. These solvency margins are a primary measure of the capital adequacy of our international insurance operations. Maintenance of our solvency margins at certain levels is also important to our competitive positioning, as in certain jurisdictions, such as Japan, these solvency margins are required to be disclosed to the public and therefore impact the public perception of an insurer s financial strength.

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The solvency margin ratios for Prudential of Japan and Gibraltar Life were 858% and 931%, respectively, as of September 30, 2014, the most recent solvency margin reporting date for these subsidiaries. As of December 31, 2014, the solvency margin ratios for both of these subsidiaries were greater than 700%.

All of our domestic and international insurance subsidiaries have capital levels that substantially exceed the minimum level required by applicable insurance regulations.

The regulatory capital levels of our domestic and international insurance subsidiaries can be materially impacted by interest rates, equity market and real estate market fluctuations, changes in the values of derivatives, the level of impairments recorded, credit quality migration of our investment portfolio, foreign exchange rate movements and business growth, among other items. In addition, particularly for our domestic insurance subsidiaries, the recapture of business subject to third-party reinsurance arrangements due to, for example, defaults by, or credit quality migration affecting, the third-party reinsurers could negatively impact regulatory capital.

In addition, the NAIC recently finalized new guidance regarding the calculation of Total Adjusted Capital (TAC) that directly affects the calculation of the RBC ratio. The new guidance, which is effective for December 31, 2014, limits the portion of an insurer s asset valuation reserve that can be counted as TAC to the amount not utilized in asset adequacy testing. This guidance did not have a material impact on the RBC ratios of our domestic insurance subsidiaries.

Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. As discussed in Business Regulation Insurance Operations State Insurance Regulation Insurance Reserves and Regulatory Capital, during the fourth quarter of 2014, we reached an agreement with the NY DFS on reserving methodologies for New York financial reporting purposes in respect of certain variable annuity products and life insurance products. We evaluate the regulatory capital of our domestic and international insurance operations under reasonably foreseeable stress scenarios and believe we have adequate resources to maintain our capital levels comfortably above regulatory requirements under these scenarios. For further information on the calculation of RBC and solvency margin ratios, as well as regulatory minimums, see Note 15 to the Consolidated Financial Statements.

Capital Protection Framework

We employ a Capital Protection Framework to ensure that sufficient capital resources are available to maintain adequate capitalization on a consolidated basis and competitive RBC ratios and solvency margins for our insurance subsidiaries under various stress scenarios. The Capital Protection Framework incorporates the potential impacts from market related stresses, including equity markets, real estate, interest rates, credit losses, and foreign currency exchange rates. Potential sources of capital include on-balance sheet capital, derivatives, and contingent sources of capital. Although we continue to enhance our approach, we believe we currently have access to sufficient resources to maintain adequate capitalization and competitive RBC ratios and solvency margins under a range of potential stress scenarios. See Business Corporate and Other for further information on our Capital Protection Framework.

Captive Reinsurance Companies

We use captive reinsurance companies in our domestic insurance operations to more effectively manage our reserves and capital on an economic basis and to enable the aggregation and transfer of risks. Our captive reinsurance companies assume business from affiliates only. To support the

risks they assume, our captives are capitalized to a level we believe is consistent with the AA financial strength rating targets of our insurance subsidiaries. All of our captive reinsurance companies are wholly-owned subsidiaries and are located domestically, typically in the state of domicile of the direct writing insurance subsidiary that cedes the majority of business to the captive. In addition to state insurance regulation, our captives are subject to internal policies governing their activities. In the normal course of business we contribute capital to the captives to support business growth and other needs. Prudential Financial has also entered into support agreements with the captives in connection with financing arrangements.

Our domestic life insurance subsidiaries are subject to a regulation entitled Valuation of Life Insurance Policies Model Regulation, commonly known as Regulation XXX, and a supporting guideline entitled The Application of the Valuation of Life Insurance Policies Model Regulation, 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, a portion of which we believe are non-economic. We use captive reinsurance companies to finance the non-economic reserves required under Regulation XXX and Guideline AXXX as described below under Financing Activities Subsidiary borrowings Financing of regulatory reserves associated with domestic life insurance products .

We reinsure living benefit guarantees on certain variable annuity and retirement products from our domestic life insurance companies to a captive reinsurance company, Pruco Reinsurance, Ltd. (Pruco Re). This enables us to aggregate these risks within Pruco Re and manage them more efficiently through a hedging program. We believe Pruco Re currently maintains an adequate level of capital and access to liquidity to support this hedging program; however, as discussed below under Liquidity associated with other activities Hedging activities associated with living benefit guarantees, Pruco Re s capital and liquidity needs can vary significantly due to, among other things, changes in equity markets, interest rates, mortality and policyholder behavior. Through our Capital Protection Framework, we hold on-balance sheet capital and maintain access to committed sources of capital that are available to meet these needs as they arise.

Through December 31, 2014, we utilized a captive reinsurance company domiciled in New Jersey to reinsure 90% of the short-term risks of Prudential Insurance s Closed Block Business. These short-term risks represent the impact of variations in experience of the Closed Block Business that are expected to be recovered over time as a result of corresponding adjustments to policyholder dividends. The reinsurance arrangement was intended to alleviate the short-term statutory surplus volatility within Prudential Insurance resulting from the Closed Block Business, including volatility caused by the impact of any unrealized mark-to-market losses and realized credit losses within its investment portfolio. To support the New Jersey captive s obligations under the reinsurance arrangement, we maintained a $2.0 billion letter of credit facility with unaffiliated financial institutions. Effective January 1, 2015, this reinsurance arrangement was recaptured, and we terminated the $2.0 billion letter of credit facility on January 2, 2015. This captive structure is no longer necessary due to the reinsurance of the Closed Block to PLIC, effective January 1, 2015, as discussed in Note 25 to the Consolidated Financial Statements. PLIC is a wholly-owned subsidiary of Prudential Insurance and is not a captive reinsurance company.

Shareholder Distributions

Share Repurchase Program and Shareholder Dividends

In June 2014, our Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock during the period from July 1, 2014 through June 30, 2015. This authorization succeeds the Board s previous $1.0 billion repurchase authority, which covered the prior twelve-month period. The timing and amount of share repurchases will be determined by management based on market conditions and other considerations, including any increased capital needs of our businesses due to, among other things, changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Exchange Act.

In the first quarter of 2013, Prudential Financial moved to a quarterly Common Stock dividend schedule. Previously, Common Stock dividends were paid on an annual basis. The following table sets forth information about repurchases of shares of Prudential Financial s Common Stock, as well as declarations of Common Stock dividends, for each of the quarterly periods in 2014 and for the prior four years.

Quarterly period ended:	Dividend Amount		Shares Repurchased	
	Per Share	Aggregate	Shares	Total Cost
	(in millions, except per share data)			
December 31, 2014	$ 0.58	$ 267	2.9	$ 250
September 30, 2014	$ 0.53	$ 245	2.8	$ 250
June 30, 2014	$ 0.53	$ 246	3.0	$ 250
March 31, 2014	$ 0.53	$ 247	2.9	$ 250

Year ended:	Dividend Amount		Shares Repurchased	
	Per Share	Aggregate	Shares	Total Cost
	(in millions, except per share data)			
December 31, 2013	$ 1.73	$ 810	10.0	$ 750
December 31, 2012	$ 1.60	$ 749	11.5	$ 650
December 31, 2011	$ 1.45	$ 689	19.80	$ 1,000
December 31, 2010	$ 1.15	$ 564		$

In addition, on February 10, 2015, Prudential Financial s Board of Directors declared a cash dividend of $0.58 per share of Common Stock, payable on March 19, 2015. As a Designated Financial Company under Dodd-Frank, Prudential Financial expects to be subject to minimum risk-based capital and leverage requirements and to the submission of annual capital plans to the FRB. Our compliance with these and other requirements under Dodd-Frank could limit our ability to pay Common Stock dividends and repurchase shares in the future.

Liquidity

Liquidity management and stress testing are performed on a legal entity basis as the ability to transfer funds between subsidiaries is limited due in part to regulatory restrictions. Liquidity needs are determined through daily and quarterly cash flow forecasting at the holding company and within our operating subsidiaries. A minimum cash balance of $1.3 billion is targeted to ensure that adequate liquidity is available at Prudential Financial to cover fixed expenses in the event that we experience reduced cash flows from our operating subsidiaries. This targeted minimum balance is reviewed and approved annually by the Board.

We seek to mitigate the risk of having limited or no access to financing due to stressed market conditions by generally pre-funding capital debt in advance of maturity. We mitigate the refinancing risk associated with our debt that is used to fund operating needs by matching the term of debt with the assets financed. To ensure adequate liquidity in stress scenarios, stress testing is performed on a quarterly basis for our major operating subsidiaries. We seek to further mitigate liquidity risk by maintaining our access to the alternative sources of liquidity, as discussed below.

Liquidity of Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends and returns of capital from subsidiaries, repayments of operating loans from subsidiaries and cash and short-term investments. These sources of funds may be supplemented by Prudential Financial s access to the capital markets as well as the Alternative Sources of Liquidity described below.

The primary uses of funds at Prudential Financial include servicing debt, paying operating expenses, making capital contributions and loans to subsidiaries, paying declared shareholder dividends and repurchasing outstanding shares of Common Stock executed under Board authority.

As of December 31, 2014, Prudential Financial had cash and short-term investments of $11,064 million, an increase of $5,509 million from 2013. The increase mainly reflects collateral posted to Prudential Financial related to our derivative positions as of December 31, 2014. We maintain an intercompany liquidity account that

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is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding net borrowings from this intercompany liquidity account, Prudential Financial had cash and short-term investments of $4,316 million as of December 31, 2014, a decrease of $38 million from December 31, 2013.

The following table sets forth Prudential Financial s principal sources and uses of cash and short-term investments, excluding net borrowings from our intercompany liquidity account, for the periods indicated.

	Year Ended December 31,	
	2014	2013
	(in millions)	
Sources:		
Dividends and/or returns of capital from subsidiaries(1)	$ 2,476	$ 3,007
Proceeds from the issuance of long-term senior debt	1,794	1,050
Proceeds from the issuance of junior subordinated debt (hybrid securities)	0	1,210
Net income tax receipts	1,231	0
Net receipts under intercompany loan agreements(2)	1,242	421
Proceeds from stock-based compensation and exercise of stock options	431	538
Interest income from subsidiaries on intercompany agreements, net of interest paid	375	369
Proceeds from the issuance of retail medium-term notes	141	0
Proceeds from short-term debt, net of repayments	0	78
Total sources	7,690	6,673
Uses:		
Capital contributions to subsidiaries(3)	3,065	1,760
Maturities of long-term senior debt, excluding retail medium-term notes	1,473	1,581
Common Stock dividends(4)	1,008	828
Share repurchases(5)	1,000	738
Interest paid on external debt	986	1,028
Repayments of short-term debt	94	0
Repayment of retail medium-term notes	58	615
Class B Stock dividends	19	19
Repayments of junior subordinated debt (hybrid securities)	0	920
Net income tax payments	0	246
Other, net	25	11
Total uses	7,728	7,746
Net increase (decrease) in cash and short-term investments	$ (38)	$ (1,073)

(1) 2014 includes dividends and/or returns of capital of $966 million from international subsidiaries, $578 million from asset management subsidiaries, $444 million from Prudential Annuities Holding Company, of which $342 million was from PALAC, $400 million from Prudential Insurance and $88 million from other subsidiaries. 2013 includes dividends and/or returns of capital of $1,642 million from international subsidiaries, $441 million from asset management subsidiaries, $338 million from an investment subsidiary, $391 million from Prudential Annuities Holding Company, of which $284 million was from PALAC, and $195 million from other subsidiaries.

(2) 2014 includes net receipts from subsidiaries of $1 billion from Prudential Arizona Reinsurance Captive Company, $402 million from Pruco Life Insurance Company (Pruco Life), and $200 million from PALAC, and net proceeds of $558 million from the issuance of notes to international subsidiaries, offset by net borrowings by subsidiaries of $312 million by asset management subsidiaries, $223 million by Pruco Re, $125 million by Prudential Term Reinsurance Company, $17 million by Prudential Life Insurance Company of New Jersey, and net repayments of $140 million to Prudential Holdings, LLC and $101 million to international subsidiaries. 2013 includes net repayments of $282 million by Pruco Life , $200 million by PALAC and $176 million by asset management subsidiaries, net proceeds of $459 million from the issuance of notes to international subsidiaries, and net repayments of $47 million from other subsidiaries, offset by net borrowings of $743 million by Pruco Re.

(3) 2014 includes capital contributions of $1,713 million to Pruco Re, $636 million to international subsidiaries, $320 million to asset management subsidiaries, $300 million to a special-purpose subsidiary in connection with a reserve financing, and $96 million to other subsidiaries. 2013 includes capital contributions of $712 million to Prudential Insurance, of which $615 million was paid to The Hartford Life Business in connection with our acquisition of its life insurance

business, $618 million to international subsidiaries, $309 million to Pruco Re, $25 million to asset management subsidiaries and $96 million to other subsidiaries.

(4) Includes cash payments made on dividends declared in prior periods.

(5) 2014 excludes $13 million related to trades that settled in January 2015. 2013 excludes $12 million related to trades that settled in January 2014.

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Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. Also, more generally, the payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors. See Note 15 to the Consolidated Financial Statements for details on specific dividend restrictions.

Domestic insurance subsidiaries. Prudential Insurance is permitted to pay ordinary dividends based on calculations specified under New Jersey insurance law, subject to prior notification to the New Jersey Department of Banking and Insurance (NJDOBI). Any distributions above this amount in any twelve month period are considered to be extraordinary dividends, and the approval of NJDOBI is required prior to payment. In December 2014, Prudential Insurance paid an ordinary dividend of $1.3 billion and an extraordinary dividend of $748 million to its parent, Prudential Holdings, of which $1.6 billion was used to fund the IHC Debt redemption and $400 million was sent to Prudential Financial to fund a portion of the Class B Stock repurchase in January 2015.

The laws regulating dividends of the states where our other domestic insurance companies are domiciled are similar, but not identical, to New Jersey s. During 2014, PALAC paid a dividend of $342 million through intermediate holding companies to Prudential Financial, of which $84 million was considered to be an extraordinary dividend under Arizona insurance law. During 2014, Pruco Life paid an ordinary dividend of $233 million and extraordinary dividends of $515 million to its parent, Prudential Insurance. During 2014, PRIAC paid extraordinary dividends of $700 million to its parent, Prudential Insurance.

International insurance subsidiaries. Our international insurance subsidiaries are subject to dividend restrictions from the regulatory authorities in the international jurisdictions in which they operate. Our most significant international insurance subsidiaries, Prudential of Japan and Gibraltar Life, are permitted to pay common stock dividends based on calculations specified by Japanese insurance law, subject to prior notification to the FSA. Dividends in excess of these amounts and other forms of capital distribution require the prior approval of the FSA. The current regulatory fiscal year end for both Prudential of Japan and Gibraltar Life is March 31, 2015, at which time the common stock dividend amount permitted to be paid without prior approval from the FSA will be determinable.

Although Gibraltar Life may be able to pay common stock dividends under these regulatory restrictions, it may return capital to Prudential Financial through other means, such as the repayment of subordinated debt or preferred stock obligations held by Prudential Financial or other affiliates. In 2014, Gibraltar Life paid preferred dividends of ¥5.3 billion and redeemed a portion of its preferred stock for ¥44.3 billion to its parent Prudential Holdings of Japan, of which approximately ¥45.6 billion, or $390 million, was ultimately sent to Prudential Financial. Prudential of Japan did not declare a dividend in 2014. Prudential of Korea paid dividends of (Won)70.0 billion, or approximately $65 million, to its parent, Prudential International Insurance Holdings Ltd, of which approximately $60 million was sent to Prudential Financial.

Other subsidiaries. The ability of our asset management subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint.

Liquidity of Insurance Subsidiaries

We manage the liquidity of our insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity within each of our insurance subsidiaries is provided by a variety of sources, including portfolios of liquid assets. The investment portfolios of our subsidiaries are integral to the overall liquidity of our insurance operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of each of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities. We use a projection process for cash flows from operations to ensure sufficient liquidity is available to meet projected cash outflows, including claims.

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Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate our insurance operations liquidity under various stress scenarios, including company-specific and market-wide events. We believe we have adequate liquidity in each of our insurance subsidiaries, including under these stress scenarios.

Cash Flow

The principal sources of liquidity for our insurance subsidiaries are premiums and certain annuity considerations, investment and fee income, and investment maturities and sales associated with our insurance and annuity operations, as well as internal and external borrowings. The principal uses of that liquidity include benefits, claims and dividends paid to policyholders, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, the payment of dividends, hedging activity and payments in connection with financing activities.

In each of our major insurance subsidiaries, we believe that the cash flows from operations are adequate to satisfy current liquidity requirements. The continued adequacy of this liquidity will depend upon factors such as future securities market conditions, changes in interest rate levels, policyholder perceptions of our financial strength, policyholder behavior, catastrophic events and the relative safety and attractiveness of competing products, each of which could lead to reduced cash inflows or increased cash outflows. Our insurance operations cash flows from investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income, net of amounts reinvested. The primary liquidity risks with respect to these cash flows are the risk of default by debtors or bond insurers, our counterparties willingness to extend repurchase and/or securities lending arrangements, commitments to invest and market volatility. We closely manage these risks through our credit risk management process and regular monitoring of our liquidity position.

Domestic insurance operations. In managing the liquidity of our domestic insurance operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions when selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers. The following table sets forth the liabilities for future policy benefits and policyholders account balances of certain of our domestic insurance subsidiaries as of the dates indicated.

	December 31,	
	2014	**2013**
	(in billions)	
Prudential Insurance	$ 166.3	$ 160.0
Prudential Retirement Insurance and Annuity Company (PRIAC)	24.9	24.3
Other(1)	4.7	5.5
Total future policy benefits and policyholders account balances	$ 195.9	$ 189.8

(1) Includes PALAC and Pruco Life. Amounts are reflected net of affiliated reinsurance recoverables.

The liabilities presented above are primarily supported by invested assets in our general account. As noted above, when selecting assets to support these contractual obligations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions. As a result, assets will include both liquid assets, as discussed below, and other assets that we believe adequately support our liabilities.

For Prudential Insurance and other subsidiaries, the liabilities presented above primarily include annuity reserves and deposit liabilities and individual life insurance policy reserves. Individual life insurance policies are less susceptible to withdrawal than our annuity contracts because policyholders may incur surrender charges and be subject to a new underwriting process in order to obtain a new insurance policy. Prudential Insurance s reserves for group annuity contracts primarily relate to pension risk transfer contracts, which are generally not subject to early withdrawal. For our individual annuity contracts, to encourage persistency, most of our variable and fixed annuities have surrender or withdrawal charges for a specified number of years. In addition, certain fixed annuities impose a

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market value adjustment if the invested amount is not held to maturity. The living benefit features of our variable annuities also encourage persistency because the potential value of the living benefit is fully realized only if the contract persists.

For PRIAC, the liabilities presented above primarily include reserves for group annuity contracts. Although many of these contracts are subject to discretionary withdrawal, withdrawals are typically at the market value of the underlying assets. Risk is further reduced by the high persistency of clients driven in part by our strong competitive position in our target markets and contractual provisions such as deferred payouts.

Gross account withdrawals for our domestic insurance operations products in 2014 were consistent with our assumptions in asset/liability management, and the associated cash outflows did not have a material adverse impact on our overall liquidity.

International insurance operations. As with our domestic operations, in managing the liquidity of our international insurance operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. The following table sets forth the liabilities for future policy benefits and policyholders account balances of certain of our international insurance subsidiaries as of the dates indicated.

	December 31,	
	2014	2013
	(in billions)	
Prudential of Japan(1)	$ 34.6	$ 34.6
Gibraltar Life(2)	85.3	91.3
All other international insurance subsidiaries(3)	11.6	10.9
Total future policy benefits and policyholders account balances	$ 131.5	$ 136.8

(1) As of December 31, 2014 and 2013, $8.0 billion and $6.5 billion, respectively, of the insurance-related liabilities for Prudential of Japan are associated with U.S. dollar-denominated products that are coinsured to our domestic insurance operations and supported by U.S. dollar-denominated assets.
(2) Includes The Prudential Gibraltar Financial Life.
(3) Represents our international insurance operations, excluding Japan.

The liabilities presented above are primarily supported by invested assets in our general account. When selecting assets to support these contractual obligations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions. As a result, assets will include both liquid assets, as discussed below, and other assets that we believe adequately support our liabilities.

We believe most of the longer-term recurring pay individual life insurance policies sold by our Japanese operations do not have significant withdrawal risk because policyholders may incur surrender charges and must undergo a new underwriting process to obtain a new insurance policy. In addition, we utilize market value adjustment features to mitigate the profitability impact and timing of withdrawals of funds by customers.

Gibraltar Life sells fixed annuities, denominated in U.S. and Australian dollars that may be subject to increased surrenders should the yen depreciate in relation to these currencies and interest rates in Australia and the U.S. decline relative to Japan. A significant portion of the liabilities associated with these contracts include a market value adjustment feature, which mitigates the profitability impact from surrenders. As of December 31, 2014, products with a market value adjustment feature represented $21.2 billion of our Japan operations insurance-related

liabilities, which include $18.8 billion attributable to non-yen denominated fixed annuities.

In October, 2013, Gibraltar Life discontinued sales of its yen-denominated single premium reduced death benefit whole life product that has a greater savings component. This product is more susceptible to increased levels of surrenders if interest rates increase in Japan, which may result in losses. As of December 31, 2014, yen-denominated single premium reduced death benefit whole life products represented $8.2 billion of our Japan operations insurance-related liabilities.

Liquid Assets

Liquid assets include cash and cash equivalents, short-term investments, fixed maturities that are not designated as held-to-maturity and public equity securities. In addition to access to substantial investment portfolios, our insurance companies liquidity is managed through access to a variety of instruments available for funding and/or managing cash flow mismatches, including from time to time those arising from claim levels in excess of projections. Our ability to utilize assets and liquidity between our subsidiaries is limited by regulatory and other constraints. We believe that ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for each of our insurance subsidiaries.

The following table sets forth the fair value of certain of our domestic insurance operations portfolio of liquid assets, including cash and short-term investments, fixed maturity investments other than those designated as held-to-maturity, classified by NAIC or equivalent rating, and public equity securities, as of the dates indicated.

	December 31, 2014				December 31, 2013
	Prudential Insurance	PRIAC	Other(1)	Total	
			(in billions)		
Cash and short-term investments	$ 6.9	$ 0.2	$ 0.6	$ 7.7	$ 8.3
Fixed maturity investments:					
High or highest quality	130.8	18.6	8.4	157.8	149.2
Other than high or highest quality	9.3	1.6	0.7	11.6	10.5
Subtotal	140.1	20.2	9.1	169.4	159.7
Public equity securities	4.0	0.0	0.0	4.0	4.3
Total	$ 151.0	$ 20.4	$ 9.7	$ 181.1	$ 172.3

(1) Includes PALAC and Pruco Life.

The following table sets forth the fair value of our international insurance operations portfolio of liquid assets, including cash and short-term investments, fixed maturity investments other than those designated as held-to-maturity, classified by NAIC or equivalent rating, and public equity securities, as of the dates indicated.

	December 31, 2014				December 31, 2013
	Prudential of Japan	Gibraltar Life(1)	All Other(2)	Total	
			(in billions)		
Cash and short-term investments	$ 0.7	$ 2.0	$ (0.6)	$ 2.1	$ 3.3
Fixed maturity investments:					
High or highest quality(3)	27.1	82.7	14.1	123.9	123.5
Other than high or highest quality	0.5	2.3	0.2	3.0	2.8
Subtotal	27.6	85.0	14.3	126.9	126.3
Public equity securities	1.6	2.3	0.4	4.3	4.4

Total(4)	$ 29.9	$ 89.3	$ 14.1	$ 133.3	$ 134.0

(1) Includes Prudential Gibraltar.
(2) Represents our international insurance operations, excluding Japan.
(3) Of the $123.9 billion of fixed maturity investments that are not designated as held to-maturity and considered high or highest quality as of December 31, 2014, $84.7 billion, or 68%, were invested in government or government agency bonds.
(4) The decline in liquid assets from December 31, 2013 was driven by depreciation of the yen relative to the U.S. dollar, partly offset by business growth.

Given the size and liquidity profile of our investment portfolios, we believe that claim experience, including policyholder withdrawals and surrenders, varying from our projections does not constitute a significant liquidity risk. Our asset/liability management process takes into account the expected maturity of investments and expected claim payments as well as the specific nature and risk profile of the liabilities. To the extent we need to pay claims in excess of projections, we may borrow temporarily or sell investments sooner than anticipated to pay these claims, which may result in increased borrowing costs or realized investment gains or losses affecting

results of operations. The payment of claims and sale of investments earlier than anticipated would have an impact on the reported level of cash flow from operating, investing, and financing activities, respectively, in our financial statements. Historically, there has been no significant variation between the expected maturities of our investments and the payment of claims.

Liquidity associated with other activities

Hedging activities associated with living benefit guarantees

As discussed in Captive Reinsurance Companies above, we reinsure living benefit guarantees on certain variable annuity and retirement products from our domestic life insurance companies to Pruco Re. This enables us to execute our living benefit hedging program primarily within a single legal entity. As part of the living benefit hedging program, we enter into a range of exchange-traded, cleared and other over the counter equity and interest rate derivatives to hedge certain optional living benefit features accounted for as embedded derivatives against changes in certain capital market conditions such as interest rates and equity index levels. For a full discussion of our living benefits hedging program, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities. Pruco Re requires access to liquidity to meet its payment obligations under this program, such as payments for periodic settlements, purchases, maturities, terminations and breakage. Pruco Re s liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality and policyholder behavior. Currently, we fund these liquidity needs with a combination of capital contributions and loans from Prudential Financial and other affiliates.

The living benefits hedging activity in Pruco Re may also result in collateral postings on derivatives to or from counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs. In addition, certain derivatives entered into on or after June 10, 2013, are subject to mandatory clearing requirements under the Dodd-Frank Act. These cleared derivatives typically have additional collateral requirements. As of December 31, 2014, the living benefit hedging derivatives were in a net receive position of $4.7 billion compared to a net posting position of $0.4 billion as of December 31, 2013. The change in collateral position was primarily driven by a decline in interest rates.

Additionally, in certain cases, state insurance law requires reinsurers, such as Pruco Re, to collateralize their obligations under a reinsurance agreement to permit the ceding company to claim statutory reinsurance reserve credit for the business ceded. Because our subsidiaries Pruco Life and PALAC are domiciled in the State of Arizona (as is Pruco Re), they are able to claim reinsurance reserve credit for business ceded to Pruco Re without the need for Pruco Re to post collateral; however, Pruco Re must post collateral with respect to business ceded to it by our subsidiaries PLNJ and PRIAC. We satisfy collateral posting requirements by depositing assets into statutory reserve credit trusts. Funding needs for the statutory reserve credit trusts are separate and distinct from capital needs of Pruco Re; however, assets pledged to the statutory reserve credit trusts may include assets supporting the capital of Pruco Re, provided that they meet eligibility requirements prescribed by the Arizona Department of Insurance. Reinsurance reserve credit requirements and the amount of assets required to be pledged can vary substantially due to changes in equity markets, interest rates, actuarial assumptions and other factors. The statutory reserve credit trust for PLNJ required collateral of $124 million and $7 million as of December 31, 2014 and 2013, respectively. The statutory reserve credit trust for PRIAC required collateral of $5 million and $2 million as of December 31, 2014 and 2013, respectively.

Foreign exchange hedging activities

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the Japanese yen. Our overall yen hedging strategy 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. The hedging strategy includes two primary components:

Income hedges We hedge a portion of our prospective non-U.S. dollar-denominated earnings streams by entering into external forward currency derivative contracts that effectively fix the currency exchange

rates for that portion of earnings, thereby reducing volatility from foreign currency exchange rate movements. As of December 31, 2014, we have hedged 100%, 72% and 28% of expected yen-based earnings for 2015, 2016 and 2017, respectively.

Equity hedges We hold both internal and external hedges primarily to hedge our U.S. dollar-equivalent equity. These hedges also mitigate volatility in the solvency margins of yen-based subsidiaries resulting from changes in the market value of their U.S. dollar-denominated investments attributable to changes in the yen-dollar exchange rate.

For additional information on our hedging strategy, see Results of Operations for Financial Services Businesses by Segment International Insurance Division.

Cash settlements from these hedging activities result in cash flows between subsidiaries of Prudential Financial and either yen-based subsidiaries or external parties. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. A significant yen depreciation over an extended period of time could result in net cash inflows, while a significant yen appreciation could result in net cash outflows. The following tables set forth information about net cash settlements and the net asset or liability resulting from these hedging activities:

Cash Settlements:	**Year ended December 31,**	
	2014	**2013**
	(in millions)	
Income Hedges(External)(1)	$ 293	$ 240
Equity Hedges:		
Internal	697	831
External	23	(166)
Total Cash Settlements	$ 1,013	$ 905

Asset/(Liability):	**As of December 31,**	
	2014	**2013**
	(in millions)	
Income Hedges(External)(2)	$ 404	$ 443
Equity Hedges:		
Internal	1,841	867
External	597	337
Total Assets/(Liabilities)(3)	$ 2,842	$ 1,647

(1) Includes Korean Won related cash settlements of $(23) million and $(15) million for the year ended December 31, 2014 and 2013, respectively.
(2) Includes a Korean Won related asset of $2.5 million and liability of $32 million as of December 31, 2014 and 2013, respectively.
(3) Approximately 35%, 20% and 45% of the net asset as of December 31, 2014 is scheduled to settle in 2015, 2016 and thereafter, respectively. The market value of the asset/liability will vary with changing market conditions.

Asset Management operations

The principal sources of liquidity for our fee-based asset management businesses include asset management fees and commercial mortgage origination and servicing fees. The principal uses of liquidity include general and administrative expenses and distributions of dividends and

returns of capital to Prudential Financial. The primary liquidity risks for our fee-based asset management businesses relate to their profitability, which is impacted by market conditions and our investment management performance. We believe the cash flows from our fee-based asset management businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our strategic investments held in our asset management businesses are cash flows from investments, the ability to liquidate investments, and available borrowing lines from internal

sources, including Prudential Financial and Prudential Funding, LLC (Prudential Funding), a wholly-owned subsidiary of Prudential Insurance. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults. There were no material changes to the liquidity position of our asset management operations during 2014.

Alternative Sources of Liquidity

In addition to the sources of liquidity discussed throughout this section, Prudential Financial and certain subsidiaries have access to the alternative sources of liquidity described below:

Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls, to earn spread income, to borrow funds, or to facilitate trading activity. These programs are primarily driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments, mortgage loans and fixed maturities, including mortgage- and asset-backed securities, with a weighted average life at time of purchase by the short-term portfolios of four years or less. Floating rate assets comprise the majority of our short-term spread portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

The following table sets forth our liabilities under asset-based or secured financing programs attributable to the Financial Services Businesses and Closed Block Business as of the dates indicated.

	December 31, 2014			December 31, 2013		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
	(in millions)					
Securities sold under agreements to repurchase	$ 5,492	$ 3,915	$ 9,407	$ 4,128	$ 3,770	$ 7,898
Cash collateral for loaned securities	3,064	1,177	4,241	4,230	810	5,040
Securities sold but not yet purchased	77	0	77	56	0	56
Total(1)	$ 8,633	$ 5,092	$ 13,725	$ 8,414	$ 4,580	$ 12,994
Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral	$ 6,610	$ 1,975	$ 8,585	$ 6,503	$ 2,273	$ 8,776
Weighted average maturity, in days(2)	23	52		39	71	

(1) The daily weighted average outstanding for the year ended December 31, 2014 and 2013 was $8,807 million and $7,044 million, for the Financial Services Businesses and $5,165 million and $4,219 million, for the Closed Block Business, respectively.
(2) Excludes securities that may be returned to the Company overnight.

Outstanding liabilities under these programs increased $0.7 billion during 2014, due primarily to attractive cash collateral reinvestment opportunities.

As of December 31, 2014, our domestic insurance entities had assets eligible for the asset-based or secured financing programs of $108 billion, of which $13.3 billion were on loan. Taking into account market conditions and outstanding loan balances as of December 31, 2014, we believe approximately $18.3 billion of the remaining eligible assets are readily lendable, including approximately $13.6 billion relating to the Financial Services Businesses, of which $3.8 billion relates to certain separate accounts and may only be used for financing activities related to those accounts.

In addition, as of December 31, 2014, our Closed Block Business had outstanding mortgage dollar rolls, under which we are committed to repurchase $0.6 billion of mortgage-backed securities, or TBA forward

contracts. These repurchase agreements do not qualify as secured borrowings and are accounted for as derivatives. These mortgage-backed securities are considered high or highest quality based on NAIC or equivalent rating.

Membership in the Federal Home Loan Banks

Prudential Insurance is a member of the Federal Home Loan Bank of New York (FHLBNY). Membership allows Prudential Insurance access to the FHLBNY s financial services, including the ability to obtain loans and to issue funding agreements as an alternative source of liquidity that are collateralized by qualifying mortgage-related assets or U.S. Treasury securities. Based on regulatory limitations, as of December 31, 2014, Prudential Insurance had an estimated maximum borrowing capacity of $7.2 billion under the FHLBNY facility, of which $2.2 billion was outstanding.

PRIAC is a member of the Federal Home Loan Bank of Boston (FHLBB), which provides PRIAC access to collateralized advances from the FHLBB. Under Connecticut law, without the prior consent of the Connecticut Insurance Department, the amount of assets insurers may pledge to secure debt obligations is limited to the lesser of 5% of prior-year statutory admitted assets or 25% of prior-year statutory surplus, resulting in a maximum borrowing capacity for PRIAC under the FHLBB facility of approximately $213 million, none of which was outstanding as of December 31, 2014. Borrowings under these facilities are subject to the FHLBNY s and the FHLBB s discretion and require the availability of qualifying assets at Prudential Insurance and PRIAC. For further information, see Note 14 to our Consolidated Financial Statements.

Commercial Paper Programs

Prudential Financial and Prudential Funding have commercial paper programs with an authorized issuance capacity of $3.0 billion and $7.0 billion, respectively. Prudential Financial commercial paper borrowings generally have been used to fund the working capital needs of our subsidiaries. Prudential Funding commercial paper borrowings generally have been used to fund the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with NJDOBI. Prudential Funding maintains a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding s positive tangible net worth at all times. Prudential Financial has also issued a subordinated guarantee covering Prudential Funding s commercial paper program. As of December 31, 2014, Prudential Financial and Prudential Funding had outstanding borrowings of $97 million and $386 million, respectively, under these commercial paper programs. For further information, see Note 14 to our Consolidated Financial Statements.

Credit Facilities

We have access to an aggregate of $3.75 billion of syndicated, unsecured committed credit facilities, which includes a $2 billion five-year facility expiring in 2018 that has Prudential Financial as borrower and a $1.75 billion three-year facility expiring in 2016 that has both Prudential Financial and Prudential Funding as borrowers. The facilities may be used for general corporate purposes, including as backup liquidity for our commercial paper programs. There were no outstanding borrowings under these credit facilities as of December 31, 2014 or as of the date of this filing.

Prudential Financial expects that it may borrow under the five-year credit facility from time to time to fund its working capital needs and those of its subsidiaries. In addition, up to $300 million of the five-year facility may be drawn in the form of standby letters of credit that can be used

to meet the Company s operating needs. The credit facilities contain representations and warranties, covenants and events of default that are customary for facilities of this type; however, borrowings under the facilities are not contingent on the Company s credit ratings nor subject to material adverse change clauses. Borrowings under the credit facilities require that the Company maintain at all times consolidated net worth of at least $18.99 billion (excluding AOCI and excluding equity of non-controlling interests). Prior to our amending the facilities in December 2014, this minimum net worth requirement applied to the net worth of the Financial Services Businesses only. For further information, see Note 14 to our Consolidated Financial Statements.

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Put Option Agreement for Senior Debt Issuance

In November 2013, we entered into a ten-year put option agreement with a Delaware trust upon the completion of the sale of $1.5 billion of trust securities by that Delaware trust in a Rule 144A private placement. The trust invested the proceeds from the sale of the trust securities in a portfolio of principal and interest strips of U.S. Treasury securities. The put option agreement provides Prudential Financial the right to sell to the trust at any time up to $1.5 billion of 4.419% senior notes due November 2023 and receive in exchange a corresponding amount of the principal and interest strips of U.S. Treasury securities held by the trust. In return, we agreed to pay a semi-annual put premium to the trust at a rate of 1.777% per annum applied to the unexercised portion of the put option. The put option agreement with the trust provides Prudential Financial with a source of liquid assets. We will determine the use of proceeds from any exercise of the put option at the time of exercise. For example, proceeds could be used to meet general liquidity needs and/or to meet the capital requirements of our subsidiaries.

The put option described above will be exercised automatically in full upon our failure to make certain payments to the trust, such as paying the put option premium or reimbursing the trust for its expenses, if our failure to pay is not cured within 30 days, and upon an event involving our bankruptcy. We are also required to exercise the put option if our consolidated stockholders equity, calculated in accordance with GAAP but excluding AOCI, falls below $7 billion, subject to adjustment in certain cases. We have a one-time right to unwind a prior voluntary exercise of the put option by repurchasing all of the senior notes then held by the trust in exchange for principal and interest strips of U.S. Treasury securities. Finally, any of the 4.419% senior notes that we issue may be redeemed by us prior to their maturity at par or, if greater, a make-whole price, following a voluntary exercise in full of the put option.

Financing Activities

As of December 31, 2014 and 2013, total short- and long-term debt of the Company on a consolidated basis was $23.7 billion and $26.2 billion, respectively. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such repurchases will depend on prevailing market conditions, our liquidity position and other factors.

	December 31, 2014			December 31, 2013		
	Prudential Financial	Other Subsidiaries	Consolidated	Prudential Financial	Other Subsidiaries	Consolidated
			(in millions)			
General obligation short-term debt:						
Commercial paper(1)	$ 97	$ 386	$ 483	$ 190	$ 460	$ 650
Current portion of long-term debt and other(2)(3)	2,222	1,134	3,356	1,531	413	1,944
Subtotal	2,319	1,520	3,839	1,721	873	2,594
General obligation long-term debt:						
Senior debt(3)(4)	11,177	1,927	13,104	11,462	1,466	12,928
Junior subordinated debt	4,884	0	4,884	4,884	0	4,884
Surplus notes(5)	0	1,341	1,341	0	4,141	4,141
Subtotal	16,061	3,268	19,329	16,346	5,607	21,953
Total general obligations	18,380	4,788	23,168	18,067	6,480	24,547
Limited recourse borrowing(6):						
Current portion of long-term debt	0	0	0	0	75	75

Long-term debt	0	502	502	0	1,600	1,600
Total limited recourse borrowings	0	502	502	0	1,675	1,675
Total borrowings	$ 18,380	$ 5,290	$ 23,670	$ 18,067	$ 8,155	$ 26,222

(1) See Alternative Sources of Liquidity above for a discussion on our use of commercial paper

(2) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $280 million at December 31, 2014. For additional information on these borrowings, see Note 14 to the Consolidated Financial Statements.

(3) Does not include $2,705 million and $2,381 million of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes as of December 31, 2014 and 2013 respectively, or $1.9 billion of collateralized funding

agreements issued to the Federal Home Loan Bank of New York at both December 31, 2014 and 2013. These notes and funding agreements are included in Policyholders account balances. For additional information on these obligations, see Notes 10 and 14 to the Consolidated Financial Statements

(4) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $280 million at December 31, 2013. For additional information on these borrowings, see Note 14 to the Consolidated Financial Statements.

(5) Amounts are net of assets under set-off arrangements of $3,973 million and $2,400 million, as of December 31, 2014 and 2013. respectively

(6) Limited and non-recourse borrowing represents outstanding debt of Prudential Holdings, LLC that is attributable to the Closed Block Business and mortgage debt of our insurance subsidiaries that has recourse only to real estate investment property. The borrowings of Prudential Holdings were redeemed in December 2014. See Prudential Holdings, LLC Notes within Note 14 to the Consolidated Financial Statements for additional information.

As of December 31, 2014 and 2013, we were in compliance with all debt covenants related to the borrowings in the table above. For further information on the terms of our short- and long-term debt obligations, see Note 14 to our Consolidated Financial Statements.

Based on the use of proceeds, we classify our borrowings as capital debt, investment-related debt, and debt related to specified businesses. Capital debt, which is debt utilized to meet the capital requirements of our businesses, was $13.3 billion and $10.2 billion as of December 31, 2014 and 2013, respectively. Investment-related debt of $6.7 billion and $9.9 billion as of December 31, 2014 and 2013, respectively, consists of debt issued to finance specific investment assets or portfolios of investment assets, the proceeds from which will service the debt. Specifically, this includes institutional spread lending investment portfolios, assets supporting reserve requirements under Regulation XXX and Guideline AXXX as described below, as well as funding for institutional and insurance company portfolio cash flow timing differences. Our remaining borrowings are utilized for business funding to meet specific purposes, including funding new business acquisition costs associated with our individual annuities business, operating needs associated with hedging our individual annuities products as discussed above and activities associated with our asset management business.

Prudential Financial Borrowings

Long-term borrowings are conducted primarily by Prudential Financial. It borrows these funds to meet its capital and other funding needs, as well as the capital and funding needs of its subsidiaries. Prudential Financial maintains a shelf registration statement with the SEC that permits the issuance of public debt, equity and hybrid securities. As a Well-Known Seasoned Issuer under SEC rules, Prudential Financial s shelf registration statement provides for automatic effectiveness upon filing and has no stated issuance capacity.

Prudential Financial primarily issues senior debt under its Medium-Term Note, Series D program that currently has an authorized issuance capacity of $20.0 billion, of which approximately $6.7 billion remained available as of December 31, 2014. Prudential Financial also maintains a retail medium-term notes program, including InterNotes®, that has an authorized issuance capacity of $5.0 billion, of which approximately $4.6 billion remained available as of December 31, 2014. The weighted average interest rate on Prudential Financial s senior notes, including the effect of interest rate hedging activity, was 5.18% and 5.39% for the years ended December 31, 2014 and 2013, respectively, excluding the effect of debt issued to consolidated subsidiaries.

Prudential Financial had $4.9 billion of junior subordinated notes outstanding as of December 31, 2014 that are considered hybrid securities and receive enhanced equity treatment from the rating agencies. See Note 14 to our Consolidated Financial Statements for a description of the key terms of our junior subordinated notes.

Prudential Financial borrowings of $18,380 million increased $313 million from December 31, 2013, driven primarily by the issuance of $1,794 million of medium-term notes and the issuance of $141 million of retail notes, partially offset by $1,473 million of maturities of medium-term notes, a decrease of $93 million in commercial paper borrowings and the maturities and scheduled principal payments of $58 million of retail notes.

Subsidiary Borrowings

Subsidiary borrowings principally consist of surplus note issuances done within our insurance and captive reinsurance subsidiaries, commercial paper borrowings by Prudential Funding and asset-based financing.

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Subsidiary borrowings of $5,290 million decreased $2,865 million, primarily driven by the redemption of $1,600 million of the limited recourse debt issued by Prudential Holdings. See Note 14 to the Consolidated Financial Statements for additional information. In addition in 2014, Financial Assurance Japan, a subsidiary of Prudential Holdings of Japan, repaid ¥32.5 billion, or approximately $300 million, of external debt assumed during the Star and Edison acquisition.

Financing of regulatory reserves associated with domestic life insurance products

Term and Universal Life Reserve Financing

As discussed above under Capital Captive Reinsurance Companies, we use captive reinsurance subsidiaries to finance the portion of the statutory reserves required to be held by our domestic life insurance companies under Regulation XXX and Guideline AXXX that we consider to be non-economic. The financing arrangements involve the reinsurance of term and universal life business to our captive reinsurers and the issuance of surplus notes by those captives that are treated as capital for statutory purposes. These surplus notes are subordinated to policyholder obligations, and the payment of principal on the surplus notes may only be made with prior insurance regulatory approval.

To date, we have entered into agreements with external counterparties providing for the issuance of up to an aggregate of $8.25 billion of surplus notes by our captive reinsurers in return for the receipt of credit-linked notes (Credit-Linked Note Structures), of which, as of December 31, 2014, $4.97 billion of surplus notes was outstanding. Under the agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate of the Company with an aggregate principal amount equal to the surplus notes outstanding. The captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. The captive can redeem the principal amount of the outstanding credit-linked notes for cash upon the occurrence of, and in an amount necessary to remedy, a specified liquidity stress event affecting the captive. Under the agreements, the external counterparties have agreed to fund any such payments under the credit-linked notes in return for the receipt of fees. Prudential Financial has agreed to make capital contributions to the captive to reimburse it for investment losses in excess of specified amounts and, under certain of the transactions, Prudential Financial has agreed to reimburse the external counterparties for any payments made under the credit-linked notes. To date, no such payments under the credit-linked notes have been required. Under these transactions, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company s total consolidated borrowings on a net basis.

The following table summarizes our Credit-Linked Note Structures, which are reported on a net basis, as of December 31, 2014:

Credit Linked Note Structures:	Surplus Note Issue Dates	Maturity Dates	Outstanding as of 12/31/2014	Facility Size
	($ in millions)			
XXX	2011-2014	2021-2024	$ 1,750	$ 2,000
AXXX	2013	2033	1,838	3,500
XXX	2014	2034	1,000	1,000
XXX	2014	2024	385	1,750
Total Credit Linked Note Structures			$ 4,973	$ 8,250

As of December 31, 2014, we also had outstanding an aggregate of $4.0 billion of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately $2.4 billion relates to Regulation XXX reserves and approximately $1.6 billion relates to Guideline AXXX reserves, all of which was issued directly by or guaranteed by Prudential Financial. Under certain of the financing arrangements pursuant to which this debt was issued, Prudential Financial has agreed to make capital contributions to the applicable captive reinsurance subsidiary to reimburse it for investment losses or to maintain

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its capital above prescribed minimum levels. In addition, as of December 31, 2014, for purposes of financing Guideline AXXX reserves, our captives had outstanding approximately $4.0 billion of surplus notes that were issued to affiliates.

As discussed under Business Regulation, in December 2014, the NAIC adopted a new actuarial guideline, known as AG 48, that governs the reinsurance of term and universal life insurance business to captives by prescribing requirements for the types of assets that may be held by captives to support the reserves. The requirements in AG 48 became effective on January 1, 2015 and apply in respect of 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 reserve financing arrangement as of December 31, 2014. We are currently evaluating the affect of AG 48 on any future financing of statutory reserves for our term and universal life business.

Other Insurance Financing

In 2014, Prudential Financial entered into financing transactions pursuant to which it issued $500 million of limited recourse notes and, in return, obtained $500 million of asset-backed notes issued by a designated series of a Delaware master trust. The asset-backed notes mature from 2019 through 2021; however, the maturity date of a portion of the notes may be extended by us for up to three years, subject to conditions. The asset-backed notes were ultimately contributed to PRIAC, an insurance subsidiary, to finance statutory surplus, and PRIAC, in turn, paid cash dividends totaling $500 million to its parent, Prudential Insurance.

The master trust s payment obligations under each of the asset-backed notes are secured by corresponding payment obligations of a third party financial institution and a portfolio of specified assets that have an aggregate value at least equal to the principal amount of the applicable asset-backed note. The principal amount of each asset-backed note is payable to PRIAC in cash at any time upon demand by PRIAC or, if not earlier paid, at maturity. Each of the limited recourse notes obligates Prudential Financial to reimburse the applicable third party financial institution for any principal payments received on the corresponding asset-backed note, but there is no obligation to reimburse any portion of a principal payment that is needed by PRIAC to pay then current claims to its policyholders. Each limited recourse note bears interest at a rate equal to the rate on the corresponding asset-backed note, plus an amount representing fees payable to the applicable third party financial institution. As of December 31, 2014, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited recourse notes. Accordingly, the notes are not reflected in the Company s Consolidated Financial Statements as of that date.

On February 18, 2015, PLIC entered into a twenty-year financing facility with certain unaffiliated financial institutions and Essex, LLC, a special-purpose company affiliate (LLC), pursuant to which PLIC may, at its option and subject to the satisfaction of customary conditions, issue and sell to LLC up to $4.0 billion in aggregate principal amount of surplus notes, in return for an equal principal amount of credit linked notes issued by LLC. Upon issuance, PLIC would hold any credit linked notes as assets to finance future statutory surplus needs within PLIC. See Note 25 to the Consolidated Financial Statements for additional information.

Ratings

Financial strength ratings (which are sometimes referred to as claims-paying ratings) and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. Our credit ratings are also important for our ability to raise capital through the issuance of debt and for the cost of such financing. Nationally Recognized Statistical Ratings Organizations continually review the financial performance and financial condition of the entities they rate, including Prudential Financial and its rated subsidiaries.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to

terminate derivative agreements and/or hurt our relationships with creditors, distributors, or trading counterparties thereby potentially negatively affecting our profitability, liquidity, and/or capital. In addition, we consider our own risk of non-performance in determining the fair value of our liabilities. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity s ability to repay its indebtedness. The following table summarizes the ratings for Prudential Financial and certain of its subsidiaries as of the date of this filing.

	A.M. Best(1)	S&P(2)	Moody s(3)	Fitch(4)
Last review date	**5/7/2014**	**12/22/2014**	**7/11/2013**	**7/10/2014**
Current outlook	**Stable**	**Stable(5)**	**Stable**	**Positive**
Financial Strength Ratings:				
The Prudential Insurance Company of America	A+	AA-	A1	A+
Pruco Life Insurance Company	A+	AA-	A1	A+
Pruco Life Insurance Company of New Jersey	A+	AA-	NR*	A+
Prudential Annuities Life Assurance Corporation	A+	AA-	NR	A+
Prudential Retirement Insurance and Annuity Company	A+	AA-	A1	A+
The Prudential Life Insurance Company Ltd. (Prudential of Japan)	NR	AA-	NR	NR
Gibraltar Life Insurance Company, Ltd.	NR	AA-	NR	NR
The Prudential Gibraltar Financial Life Insurance Co. Ltd	NR	AA-	NR	NR
Prudential Life Insurance Co. of Taiwan, Inc.(6)	NR	twAA+	NR	NR
Credit Ratings:				
Prudential Financial, Inc.:				
Short-term borrowings	AMB-1	A-1	P-2	F2
Long-term senior debt	a-	A	Baa1	BBB+
Junior subordinated long-term debt	bbb	BBB+	Baa2	BBB-
The Prudential Insurance Company of America:				
Capital and surplus notes	a	A	A3	A-
Prudential Funding, LLC:				
Short-term debt	AMB-1	A-1+	P-1	F1
Long-term senior debt	a+	AA-	A2	A
PRICOA Global Funding I:				
Long-term senior debt	aa-	AA-	A1	A+

* NR indicates not rated.

(1) A.M. Best Company, which we refer to as A.M. Best, financial strength ratings for insurance companies range from A++ (superior) to S (suspended). A rating of A+ is the second highest of sixteen rating categories. A.M. Best long-term credit ratings range from aaa (exceptional) to d (default), with ratings from aaa to bbb considered as investment grade. A.M. Best short-term credit ratings range from AMB-1+, which represents an exceptional ability to repay short-term debt obligations, to AMB-4, which correlates with a speculative (bb) long-term rating.

(2) Standard & Poor s Rating Services, which we refer to as S&P, financial strength ratings for insurance companies range from AAA (extremely strong) to R (regulatory supervision). A rating of AA- is the fourth highest of twenty-three rating categories. S&P s long-term issue credit ratings range from AAA (extremely strong) to D (default). S&P short-term ratings range from A-1 (highest category) to D (default).

(3) Moody s Investors Service, Inc., which we refer to as Moody s, insurance financial strength ratings range from Aaa (exceptional) to C (lowest). A rating of A1 is the fifth highest of twenty-one rating categories. Numeric modifiers are used to refer to the ranking within the group with 1 being the highest and 3 being the lowest. These modifiers are used to indicate relative strength within a category. Moody s credit ratings range from Aaa (highest) to C (default). Moody s short-term ratings range from Prime-1 (P-1), which represents a superior ability for repayment of senior short-term debt obligations, to Prime-3 (P-3), which represents an acceptable ability for repayment of such obligations. Issuers rated Not Prime do not fall within any of the Prime rating categories.

(4) Fitch Ratings Inc., which we refer to as Fitch, financial strength ratings range from AAA (exceptionally strong) to C (distressed). A rating of A+ is the fifth highest of nineteen rating categories. Fitch long-term credit ratings range from AAA (highest credit quality),

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which denotes exceptionally strong capacity for timely payment of financial commitments, to D (default). Investment grade ratings range between AAA and BBB. Short-term ratings range from F1 (highest credit quality) to C (high default risk).

(5) S&P has the ratings of our U.S.-domiciled entities on stable outlook and the ratings of our Japanese insurance entities on negative outlook due to their negative outlook on the sovereign debt ratings of Japan.

(6) This rating for Prudential Life Insurance Company of Taiwan, Inc. was issued on December 18, 2013 by Taiwan Ratings Corporation, a partner of S&P.

The ratings set forth above reflect current opinions of each rating agency. Each rating should be evaluated independently of any other rating. These ratings are not directed toward shareholders and do not in any way reflect evaluations of the safety and security of the Common Stock. These ratings are reviewed periodically and may be changed at any time by the rating agencies. As a result, we cannot assure stakeholders that we will maintain our current ratings in the future.

Rating agencies use an outlook statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12-18 months the rating agency expects ratings to remain unchanged among companies in the sector. Currently, Moody s, A.M. Best, S&P and Fitch all have the U.S. life insurance industry on stable outlook. For a particular company, an outlook generally indicates a medium- or long-term trend (generally six months to two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice. Currently, Fitch has all of the Company s ratings on positive outlook; Moody s and A.M. Best have all of the Company s ratings on stable outlook; and S&P has the ratings of our U.S.-domiciled entities on stable outlook and the ratings of our Japanese insurance entities on negative outlook due to the negative outlook on their sovereign debt ratings of Japan.

Requirements to post collateral or make other payments as a result of ratings downgrades under certain agreements, including derivative agreements, can be satisfied in cash or by posting permissible securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels as of December 31, 2014 (relating to financial strength ratings in certain cases and credit ratings in other cases) would result in estimated additional collateral posting requirements or payments under such agreements of approximately $9 million. The amount of collateral required to be posted for derivative agreements is also dependent on the fair value of the derivative positions as of the balance sheet date. For additional information regarding the potential impacts of a ratings downgrade on our derivative agreements see Note 21 to our Consolidated Financial Statements. In addition, a ratings downgrade by A.M. Best to A- for our domestic life insurance companies would require Prudential Insurance to either post collateral or a letter of credit in the amount of approximately $1.4 billion, based on the level of statutory reserves related to the variable annuity business acquired from Allstate. We believe that the posting of such collateral would not be a material liquidity event for Prudential Insurance.

In view of the difficulties experienced in recent years by many financial institutions, the rating agencies have heightened the level of scrutiny that they apply to such institutions, have increased the frequency and scope of their credit reviews, have requested additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels, such as the financial strength ratings currently held by our life insurance subsidiaries. In addition, actions we might take to access third party financing or to realign our capital structure may in turn cause rating agencies to reevaluate our ratings.

The following is a summary of the significant changes or actions in our ratings and rating outlooks that have occurred from January 1, 2014 through the date of this filing.

On May 7, 2014, A.M. Best affirmed Prudential Financial s long-term senior debt rating at a- and short-term debt rating at AMB-1 . A.M. Best also affirmed the A+ financial strength ratings of Prudential Financial s core subsidiaries, including Prudential Insurance, Prudential Annuities Life Assurance Corporation, and Prudential Retirement Insurance and Annuity Company, with stable outlooks.

On July 10, 2014, Fitch affirmed Prudential Financial s long-term senior debt rating at BBB+ and the financial strength ratings of our U.S. operating entities at A+ . Fitch also revised the outlook on these ratings from stable to positive.

On December 22, 2014, S&P affirmed the long-term senior debt rating of Prudential Financial at A and the financial strength ratings of Prudential s core subsidiaries at AA- . All U.S. ratings have stable outlooks, while the ratings of our Japanese subsidiaries have negative outlooks due to S&P s negative outlook on the Japan sovereign rating.

Contractual Obligations

The table below summarizes the future estimated cash payments related to certain contractual obligations as of December 31, 2014. The estimated payments reflected in this table are based on management s estimates and assumptions about these obligations. Because these estimates and assumptions are necessarily subjective, the actual cash outflows in future periods will vary, possibly materially, from those reflected in the table. In addition, we do not believe that our cash flow requirements can be adequately assessed based solely upon an analysis of these obligations, as the table below does not contemplate all aspects of our cash inflows, such as the level of cash flow generated by certain of our investments, nor all aspects of our cash outflows.

	Estimated Payments Due by Period				
	Total	2015	2016-2017	2018-2019	2020 and thereafter
			(in millions)		
Short-term and long-term debt obligations(1)	$ 43,595	$ 4,870	$ 4,797	$ 4,722	$ 29,206
Operating and capital lease obligations(2)	629	123	199	126	181
Purchase obligations:					
Commitments to purchase or fund investments(3)	4,911	3,966	501	292	152
Commercial mortgage loan commitments(4)	2,442	1,850	553	0	39
Other liabilities:					
Insurance liabilities(5)	1,297,197	48,793	79,278	84,035	1,085,091
Other(6)	13,898	13,675	63	53	107
Total	$ 1,362,672	$ 73,277	$ 85,391	$ 89,228	$ 1,114,776

(1) The estimated payments due by period for long-term debt reflects the contractual maturities of principal, as disclosed in Note 14 to the Consolidated Financial Statements, as well as estimated future interest payments. The payment of principal and estimated future interest for short-term debt are reflected in estimated payments due in less than one year. The estimate for future interest payments includes the effect of derivatives that qualify for hedge accounting treatment. See Note 14 to the Consolidated Financial Statements for additional information concerning our short-term and long-term debt.

(2) The estimated payments due by period for operating and capital leases reflect the future minimum lease payments under non-cancelable operating and capital leases, as disclosed in Note 23 to the Consolidated Financial Statements.

(3) As discussed in Note 23 to the Consolidated Financial Statements, we have commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. The timing of the fulfillment of certain of these commitments cannot be estimated, therefore the settlement of these obligations are reflected in estimated payments due in less than one year. Commitments to purchase or fund investments include $28 million that we anticipate will ultimately be funded from our separate accounts.

(4) As discussed in Note 23 to the Consolidated Financial Statements, loan commitments of our commercial mortgage operations, which are legally binding commitments to extend credit to a counterparty, have been reflected in the contractual obligations table above principally based on the expiration date of the commitment; however, it is possible these loan commitments could be funded prior to their expiration. In certain circumstances the counterparty may also extend the date of the expiration in exchange for a fee.

(5) The estimated payments due by period for insurance liabilities reflect future estimated cash payments to be made to policyholders and others for future policy benefits, policyholders account balances, policyholder s dividends, reinsurance payables and separate account liabilities, net of reinsurance recoverables. These future estimated cash outflows are based on mortality, morbidity, lapse and other assumptions comparable with our experience, consider future premium receipts on current policies in force, and assume market growth and interest crediting consistent with assumptions used in amortizing deferred acquisition costs and value of business acquired. These cash outflows are undiscounted with respect to interest and, as a result, the sum of the cash outflows shown for all years in the table of $1,297 billion exceeds the corresponding liability amounts of approximately $660 billion included in the Consolidated Financial Statements as of December 31, 2014. Separate account liabilities are legally insulated from general account obligations, and it is generally expected these liabilities will be fully funded by separate account assets and their related cash flows. We have made significant assumptions to determine the future estimated cash outflows related to the underlying policies and contracts. Due to the significance of the assumptions used, actual cash outflows will differ, possibly materially, from these estimates.

(6) The estimated payments due by period for other liabilities includes securities sold under agreements to repurchase, cash collateral for loaned securities, liabilities for unrecognized tax benefits, bank customer liabilities, and other miscellaneous liabilities. Amounts presented in the table also exclude $6.058 billion of notes of consolidated VIE s which recourse for these obligations is limited to the assets of the respective VIE and do not have recourse to the general credit of the company.

We also enter into agreements to purchase goods and services in the normal course of business; however, these purchase obligations are not material to our consolidated results of operations or financial position as of December 31, 2014.

Off-Balance Sheet Arrangements

Guarantees and Other Contingencies

In the course of our business, we provide certain guarantees and indemnities to third parties pursuant to which we may be contingently required to make payments in the future. See Commitments and Guarantees within Note 23 to the Consolidated Financial Statements for additional information.

Other Contingent Commitments

We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. See Commitments and Guarantees within Note 23 to the Consolidated Financial Statements for additional information regarding these commitments. For further discussion of certain of these commitments that relate to our separate accounts, also see Liquidity associated with other activities Asset Management operations.

Other Off-Balance Sheet Arrangements

In November 2013, we entered into a put option agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to $1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust. See Note 14 to our Consolidated Financial Statements for more information on this put option agreement. In 2014, Prudential Financial entered into financing transactions, pursuant to which it issued $500 million of limited recourse notes and, in return, obtained $500 million of asset-backed notes from a Delaware master trust and ultimately contributed the asset-backed notes to its subsidiary, PRIAC. As of December 31, 2014, no principal payments have been received or are currently due on the asset-backed notes and, as a result, there was no payment obligation under the limited recourse notes. Accordingly, neither of the notes is reflected in the Company s Consolidated Financial Statements as of that date. For further discussion see Liquidity Financing Activities.

Other than as described above, we do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, other than the agreements referred to above, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

Risk Management

Overview

We employ a risk governance structure, overseen by senior management and our Board of Directors and managed by Enterprise Risk Management (ERM), to provide a framework for evaluating the risks embedded in and across our businesses, managing these risks and identifying current and future risk challenges and opportunities.

Risk Governance Framework

Each of our businesses has a risk governance structure that is supported by a framework at the corporate level. Generally, our businesses are authorized to make day-to-day risk decisions that are consistent with enterprise risk policies and limits, and subject to enterprise oversight. The governance structure described in this section is designed to support this framework.

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Board of Directors Role in Risk Management

Our Board of Directors oversees the Company s risk profile and management s processes for assessing and managing risk. Certain specific categories of risk are assigned to Board committees that report back to the full Board, as summarized below:

Audit Committee: oversees risks related to operational risks, financial controls, legal, regulatory and compliance risks, and the overall risk management governance structure and risk management function.

Finance Committee: oversees risks involving the Company s capital and liquidity management, the incurrence and repayment of borrowings, the capital structure, the funding of benefit plans and statutory insurance reserves. It also oversees the strength of the finance function. The Finance Committee reviews and recommends for approval to the Board the Company s capital plan. The Finance Committee also receives regular updates on the sources and uses of capital relative to plan, as well as on our Capital Protection Framework.

Investment Committee: oversees investment and market risk and the strength of the investment function. The Investment Committee approves investment and market risk limits for Prudential Financial and for Prudential Insurance s general account based on asset class, issuer, credit quality and geography.

Compensation Committee: oversees our compensation programs so that incentives are aligned with appropriate risk taking.

Corporate Governance and Business Ethics Committee: oversees the Company s political contributions, lobbying expenses and overall political strategy, as well as its environmental, sustainability and corporate social responsibility.

In February 2015 the Board established a Risk Committee comprised of the chairs of the other Board committees to more closely coordinate the risk oversight functions of each Board committee.

Management Committees

Our primary risk management committee is the Enterprise Risk Committee (ERC). The ERC is chaired by our Chief Risk Officer and otherwise comprised of the Vice Chairman, Chief Operating Officers for the U.S. and International Businesses, General Counsel, Chief Financial Officer, Chief Investment Officer and Chief Actuary. Our Chief Auditor also attends meetings of the ERC. The ERC s mandate is to review significant risks that impact the Company and approve, or recommend to the Board for approval, our risk management policies and limits to keep the risk profile of the Company consistent with its strategy.

The ERC is supported by five Risk Oversight Committees, each of which is comprised of subject matter experts and dedicated to one of the following risk types: investment risk, market risk, insurance risk, operational risk and model risk. These Risk Oversight Committees report their activities to the ERC, and significant matters or matters where there are unresolved points of view are reviewed and brought to the ERC. The Risk Oversight Committees provide an opportunity to evaluate complex issues by subject matter experts within the various risk areas. They evaluate the adequacy and effectiveness of risk mitigation options, identify stakeholders of risks and issues, review material risk assumptions for reasonability and consistency across the Company and, working with the different risk areas, develop recommendations for risk limits, among other responsibilities.

Each of our business units and significant corporate functions maintains its own risk committee. The business unit risk committees serve as a forum for leaders within each business unit to identify, assess and resolve risk and exposure issues and to review new products and initiatives, prior to such issues being reviewed by the Risk Oversight Committees and/or the ERC as appropriate. Corporate function risk committees assess and monitor risks associated with performing the relevant corporate functions, set standards and exercise oversight over specific risks.

Risk Identification

We use a variety of tools and processes to assess risk, such as quantitative tools for measurable financial risks and qualitative assessments for non-financial risks, such as certain operational risks.

Beginning with the development of material new products or services, we complete a risk assessment which may lead to changes in design features, terms, pricing, investment strategy or the use of other risk mitigation techniques to affect the risk/reward dynamics for the product or service. We also weigh risk decisions against the impact to our reputation and our ability to achieve our ratings objectives.

Risk Exposure and Monitoring

We classify our risks into four general categories: investment risk, market risk, insurance risk and operational risk (which includes legal, regulatory and technology risk). In addition we are exposed to model risk, as well as reputational risk, which underlies, and is a part of, each risk assessment.

For information on risk as it relates to our capital and liquidity, see Liquidity and Capital Resources.

Investment Risk Management

We view investment risk as the risk of loss on fixed maturity investments due to default or deterioration in credit quality, or loss on equity or real estate investments due to deterioration in value. Our exposure to investment risk is primarily comprised of:

- the risk that we will not receive contractual payments on a timely basis on fixed maturity investments (for example, credit default risk);
- the risk that our fixed maturity investments lose value due to a deterioration of credit quality (for example, the probability of default rises or the likelihood of recovery on a default deteriorates);
- the risk that a counterparty on derivatives, securities lending, reinsurance or other transactions does not meet its contractual obligations to us; and
- the risk that values of our non-coupon, equity and/or real estate equity investments decline.

With general account fixed maturities of $329 billion as of December 31, 2014, Prudential Financial is exposed to significant credit risk. To manage this risk, we have a set of risk limits in place, including enterprise-level risk limits set by the Investment Committee of the Board of Directors. These limits are delineated into formal Investment Policy Statements which set limits on asset classes, permissible instruments, individual issuer, industry/sector and geographic exposures by individual legal entities, segments and business units. Compliance with most of these limits is measured on a daily basis, with some limits measured monthly or quarterly. In addition, our credit research departments closely monitor our credit exposures and maintain watch lists of exposures where there is a risk of impairment. If we have concerns about credit for a public exposure, we may sell some or all of that exposure or hedge the exposure with credit derivatives. See General Account Investments for further information on our general account portfolio, including the composition of our fixed maturity portfolio by industry category and credit quality.

We also monitor our equity, real estate equity and other non-coupon investment exposures on an ongoing basis, and our risk and portfolio management functions review these portfolios quarterly.

Market Risk Management

Market risk is defined as the risk of loss resulting from change in the value of assets, liabilities or derivative instruments as a result of absolute or relative changes in factors affecting financial markets, such as changes in interest rates, equity prices, foreign currency exchange rates and credit spreads.

Our exposure is primarily comprised of:

- Interest rate risk: our primary exposure arises within our insurance and annuities operations when changes in interest rates cause changes in asset and liability values that do not offset. For further information, see General Account Investments Management of Investments above.

- Credit spread risk: our investment portfolio includes corporate debt issuance which, in addition to creating credit risk from potential default and migration, introduces risk of value loss when market spreads widen.

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Equity price risk: our primary exposure arises within our Annuities segment when equity price changes move the value of embedded derivatives associated with variable annuities living benefit features without creating offsetting changes in the value of equity based derivatives hedging these benefits. Secondarily, we are exposed to risk from the impact of equity market price declines that are not actively hedged on guaranteed minimum death benefits and guaranteed minimum income benefits. In addition, we are subject to changes in value on equity securities held in our general account and to lost fees from separate accounts and other funds under management when equity markets decline.

Foreign currency exchange rate risk: with significant operations outside the U.S., particularly in Japan, our primary exposure arises when changes in foreign currency rates impact our U.S. dollar-equivalent earnings and equity in these operations. For further information, see International Insurance Division Foreign Currency Exchange Rate Movements and Related Hedging Strategies above. In addition, we are subject to changes in the value of investments denominated in foreign currencies held in our general account.

For additional information on our exposure to market risk, including how this risk is managed, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Insurance Risk Management

We define insurance risk as the risk of loss due to deviations in experience compared to our assumptions. Our exposure is primarily comprised of:

Mortality risk, or the risk that death claims are greater than expected, primarily within our Individual Life, Group Insurance and International Insurance segments, or the risk that policyholders survive longer than expected, primarily within our Individual Annuities, Retirement and International Insurance segments;

Morbidity risk, or the risk that health claims from sickness or disability are greater than expected, primarily within our Group Insurance and International Insurance segments as well as from long term care policies within Divested Businesses; and

Policyholder behavior risk, or the risk that our customers persistency experience or utilization experience differs from our expectations.

Underwriting insurance risk is a fundamental part of our business. We believe our scale provides for the benefits of diversification, both within an insurance risk type (potentially enhancing predictability of experience) and across insurance risk types (for example, to some extent, mortality risk provides a natural hedge against longevity risk). Insurance risk mitigation begins with product design, as well as underwriting and pricing standards at the business unit level with corporate oversight. In some cases, the availability and/or credibility of policyholder behavior experience may be limited, which we strive to reflect in the product design and pricing of the product. We provide corporate oversight of the material insurance risk assumptions utilized in pricing and valuation.

Operational Risk Management

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes and systems, employee actions, or as the result of external events. Operational risks are broad in scope and evident in each business unit and corporate function. We are exposed to operational risk in many ways, including, but not limited to:

Legal and regulatory compliance risk

Sales practices risk

Fraud (internal and external) risk

Reputational risk

Employee risk

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- Technology risk, including data security, system failures and processing errors
- Financial reporting risk
- Extreme events risk, such as loss of people and/or infrastructure caused by natural disasters, terrorism, disease, etc.
- Information risk
- Vendor risk

Each of our businesses and corporate functions is expected to manage its operational risks in compliance with enterprise standards. Our framework for identifying, evaluating, monitoring and managing operational risk includes: risk management committees; key risk indicators; risk and control assessments; loss event data collection and analysis; scenario analysis; and resolution of control issues. We also have enterprise policies and standards, including: Legal and Regulatory/Compliance Policies, such as those relating to sales practices and supervision, fraud prevention, safeguarding of personal information, protection and use of material non-public information, personal conflicts of interest and outside business activities, anti-money laundering, and gifts and entertainment; Human Resources Policies, such as those relating to hiring, training and terminating the employment of our associates and succession planning; and Information Technology policies, including those on systems development and information security. We also maintain policies and standards to support the effective management of operational risk, including those concerning new product development, business continuation and disaster recovery, enterprise crisis management, and vendor governance. Our Internal Audit Department independently audits key operational controls on a periodic basis to assess the effectiveness of our framework.

In order to respond to the threat of security breaches and cyber attacks, the Company has developed a program overseen by the Chief Information Security Officer and the Information Security Office that is designed to protect and preserve the confidentiality, integrity, and continued availability of all information owned by, or in the care of the Company. The program provides for the coordination of various corporate functions and governance groups, and serves as a framework for the execution of responsibilities across businesses and operational roles. The program establishes security standards for the Company s technological resources, and includes training for employees, contractors and third parties. The Company continually engages with the outside security community and monitors cyber threat information.

We are also exposed to emerging risks, that is, those conditions, situations or trends that may significantly impact us in the future. By nature, these risks involve a high degree of uncertainty. ERM, together with our businesses, monitors and evaluates emerging risks on a regular basis.

Model Risk Management

Models are utilized by our businesses and corporate functions primarily in projecting 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. 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. We are mitigating this risk by implementing our Model Risk Policy, which outlines the governance and control requirements over the implementation and use of models, and through the activities of our Model Risk Oversight Committee which provides oversight and guidance on issues relating to model risk and the management of that risk.

For further information on the risks to which the Company is exposed, see Item. 1A Risk Factors.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is defined as the risk of loss resulting from change in the value of assets, liabilities or derivative instruments as a result of absolute or relative changes in factors affecting financial markets, such as changes in interest rates, equity prices, foreign currency exchange rates and credit spreads.

To varying degrees, the investment activities supporting all of our products and services generate exposure to market risk. The primary source of our exposure to market risk is other than trading activities conducted primarily in our insurance and annuity operations. The market risk incurred, and our strategies for managing this risk, vary by product. The market risk associated with trading activities is immaterial.

For additional information regarding the potential impacts of interest rate and other market fluctuations, as well as general economic and market conditions on our businesses and profitability, see Item 1A. Risk Factors above. For additional information regarding the overall management of our general account investments and our asset mix strategies, see Management s Discussion and Analysis of Financial Condition and Results of Operations General Account Investments Management of Investments above. For additional information regarding our liquidity and capital resources, which may be impacted by changing market risks, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources above.

Market Risk Management

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns on the underlying assets or liabilities. Risk range limits are established for each type of market risk and are approved by the Investment Committee of the Board of Directors and subject to ongoing review.

Our risk management process utilizes a variety of tools and techniques, including:

- Measures of price sensitivity to market changes (e.g., interest rates, equity index prices, foreign exchange, credit spreads);
- Value-at-Risk, or VaR measures;
- Asset/liability management analytics;
- Stress scenario testing;

Hedging programs; and

Risk management governance, including policies, limits and a market risk oversight committee. For additional information regarding our overall risk management framework and governance structure, see Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management above.

Market Risk Mitigation

Risk mitigation takes three primary forms:

Managing assets to liability-based limits on net exposure. For example, investment policies identify target durations for assets based on liability characteristics and asset portfolios are managed to within ranges around them. This mitigates potential unanticipated economic losses from interest rate movements.

Hedging non-strategic exposures. For example, our investment policies generally require hedging currency risk for all cash flows not offset by similarly denominated liabilities.

Management of portfolio concentration risk. For example, ongoing monitoring and management at the enterprise level of key rate, currency and other concentration risks support diversification efforts to mitigate exposure to individual markets and sources of liquidity strain.

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Market Risk Related to Interest Rates

Assets that subject us to interest rate risk primarily include fixed maturity securities, commercial mortgage and other loans, and policy loans. Liabilities that subject us to interest rate risk primarily include policyholder account balances relating to interest-sensitive life insurance, annuity and other investment-type contracts, certain guaranteed benefit features accounted for as embedded derivatives, and outstanding short-term and long-term debt. Changes in interest rates create risk that the resulting changes in asset values will differ from the changes in the value of the liabilities relating to the underlying or hedged products. Derivatives that subject us to interest rate risk primarily include interest rate swaps, forwards, futures and options. Additionally, changes in interest rates may impact other items including, but not limited to, the following:

- Net investment spread between the amounts that we are required to pay and the rate of return we are able to earn on investments for certain products supported by general account investments;
- Asset-based fees earned on assets under management or contractholder account values;
- Estimated total gross profits and the amortization of deferred policy acquisition and other costs;
- Net exposure to the guarantees provided under certain products; and
- Capital levels of our regulated entities.

We use duration and convexity analyses to measure price sensitivity to interest rate changes. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change of duration with respect to changes in interest rates. We use asset/liability management and derivative strategies to manage our interest rate exposure by legal entity by matching the relative sensitivity of asset and liability values to interest rate changes, or controlling duration mismatch of assets and liabilities. We have duration mismatch constraints tailored to the rate sensitivity of products in each entity. In certain markets, primarily outside the U.S. and Japan, capital market limitations that hinder our ability to acquire assets that approximate the duration of some of our liabilities are considered in setting the limits. As of December 31, 2014 and 2013, the difference between the duration of assets and the target duration of liabilities in our duration-managed portfolios was within our policy limits. We consider risk-based capital and tax implications as well as current market conditions in our asset/liability management strategies.

We assess the impact of interest rate movements on the value of our financial assets, financial liabilities and derivatives using hypothetical test scenarios that assume either upward or downward 100 basis point parallel shifts in the yield curve from prevailing interest rates, reflecting changes in either credit spreads or the risk-free rate. The following table sets forth the net estimated potential loss in fair value on these financial instruments from a hypothetical 100 basis point upward shift as of December 31, 2014 and 2013. This table is presented on a gross basis and excludes offsetting impacts to insurance liabilities that are not considered financial liabilities under U.S GAAP. This scenario results in the greatest net exposure to interest rate risk of the hypothetical scenarios tested at those dates. While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed-income markets, it is a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These test scenarios do not measure the changes in value that could result from non-parallel shifts in the yield curve which we would expect to produce different changes in discount rates for different maturities. As a result, the actual loss in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations. The estimated changes in fair values do not include separate account assets.

	As of December 31, 2014			As of December 31, 2013(1)		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
	(in millions)					
Financial assets with interest rate risk:						
Fixed maturities(2)		$ 328,942	$ (27,812)		$ 314,015	$ (25,834)
Commercial mortgage and other loans		49,097	(2,176)		42,805	(1,850)
Derivatives:						
Swaps	$ 224,345	6,316	(5,690)	$ 204,626	(2,268)	(3,719)
Futures	32,357	6	102	34,723	6	12
Options	85,354	952	(337)	86,657	454	344
Forwards	22,517	(165)	(27)	15,108	157	(60)
Synthetic GICs(3)	74,707	6	0	78,110	8	0
Variable annuity and other living benefit feature embedded derivatives(4)		(8,182)	5,560		(441)	3,097
Financial liabilities with interest rate risk(5):						
Short-term and long-term debt		(25,974)	3,039		(28,286)	2,392
Limited recourse notes issued by consolidated VIEs(6)		(18)	0		(39)	0
Investment contracts		(96,375)	3,480		(96,600)	3,410
Net estimated potential loss			$ (23,861)			$ (22,208)

(1) Prior periods have been revised to include the gross notional amount and fair value of derivative contracts used in a broker-dealer capacity.
(2) Includes fixed maturities classified as trading account assets supporting insurance liabilities and other fixed maturities classified as trading securities under U.S. GAAP, but are held for other than trading activities in our segments that offer insurance, retirement and annuities products.
(3) The gross notional amount as of December 31, 2013, has been revised from $60,758 million to $78,110 million to correct the previously reported amount. This amount does not impact the Consolidated Financial Statements.
(4) Reflects only the gross change on the embedded derivatives and excludes any offsetting impact of derivative instruments purchased to hedge such changes.
(5) Excludes approximately $259 billion and $248 billion as of December 31, 2014 and December 31, 2013, respectively, of insurance reserve and deposit liabilities which are not considered financial liabilities. We believe that the interest rate sensitivities of these insurance liabilities would serve as an offset to the net interest rate risk of the financial assets and liabilities, including investment contracts.
(6) See Note 5 to the Consolidated Financial Statements for additional information regarding consolidated VIEs.

Our net estimated potential loss in fair value as of December 31, 2014 increased from December 31, 2013, reflecting increases in our fixed maturity securities and commercial mortgage loan portfolios in 2014, primarily driven by a decrease in U.S. interest rates. This increase was partially offset by a decrease in net estimated potential loss in fair value from variable annuity and other living benefits, reflecting a higher liability driven by a decline in interest rates.

Under U.S. GAAP, the fair value of the embedded derivatives for certain variable annuity and other living benefit features, reflected in the table above, includes the impact of the market s perception of our own non-

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performance risk (NPR). The additional credit spread over LIBOR rates incorporated into the discount rate as of December 31, 2014, to reflect NPR in the valuation of these embedded derivatives, ranged from 0 to 130 basis points.

The following table provides a demonstration of the sensitivity of these embedded derivatives to our NPR credit spread by quantifying the adjustments that would be required assuming both a 50 basis point parallel increase and decrease in our NPR credit spreads. While the information below is for illustrative purposes only and does not reflect our expectations regarding our credit spreads, it is a near-term, reasonably possible change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our credit spread on operating results due to the change in these embedded derivatives, and not changes in any other assumptions such as persistency, utilization and mortality, or the effect of these changes on DAC or other balances.

	December 31, 2014 (Increase) / Decrease in Embedded Derivative Liability	December 31, 2013 (Increase) / Decrease in Embedded Derivative Liability
	(in millions)	
Increase in credit spread by 50 basis points	$ 1,814	$ 548
Decrease in credit spread by 50 basis points	$ (2,203)	$ (769)

The increase in sensitivity to changes in credit spreads was primarily driven by an increase in the base liability for certain variable annuity and other living benefits features, as discussed above. For an additional discussion of our variable annuity optional living benefit guarantees accounted for as embedded derivatives and related derivatives used to hedge the changes in fair value of these embedded derivatives, see Market Risk Related to Certain Variable Annuity Products below. For additional information about the key estimates and assumptions used in our determination of fair value, see Note 20 to the Consolidated Financial Statements below. For information on the impacts of a sustained low interest rate environment, see Management s Discussion and Analysis of Financial Condition and Results of Operations Executive Summary Industry Trends Impact of a Low Interest Rate Environment above.

Market Risk Related to Equity Prices

We have exposure to equity price risk through our investments in equity securities, equity-based derivatives and certain variable annuity and other living benefit feature embedded derivatives. Our equity-based derivatives primarily hedge the equity price risk embedded in the living benefit feature embedded derivatives, and are also part of our capital hedging program. Changes in equity prices create risk that the resulting changes in asset values will differ from the changes in the value of the liabilities relating to the underlying or hedged products. Additionally, changes in equity prices may impact other items including, but not limited to, the following:

- Asset-based fees earned on assets under management or contractholder account value
- Estimated total gross profits and the amortization of deferred policy acquisition and other costs
- Net exposure to the guarantees provided under certain products

We manage investment equity price risk against benchmarks in respective markets. We benchmark our return on equity holdings against a blend of market indices, mainly the S&P 500 and Russell 2000 for U.S. equities. We benchmark foreign equities against the Tokyo Price Index, or

TOPIX, and the MSCI EAFE, a market index of European, Australian, and Far Eastern equities. We target price sensitivities that approximate those of the benchmark indices.

We estimate our investment equity price risk from a hypothetical 10% decline in equity benchmark market levels and measure this risk in terms of the decline in fair market value of equity securities we hold. The following table sets forth the net estimated potential loss in fair value from such a decline as of December 31, 2014 and 2013. While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future performance of equity markets or of our equity portfolio, they represent near-term reasonably possible hypothetical changes that illustrate the potential impact of such events. These scenarios consider only the direct impact on fair value of declines in equity benchmark market levels and not changes in asset-based fees recognized as revenue, changes in our estimates of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, or changes in any other assumptions such as market volatility or mortality,

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utilization or persistency rates in our variable annuity contracts that could also impact the fair value of our living benefit features. In addition, these scenarios do not reflect the impact of basis risk, such as potential differences in the performance of the investment funds underlying the variable annuity products relative to the market indices we use as a basis for developing our hedging strategy. The impact of basis risk could result in larger differences between the change in fair value of the equity-based derivatives and the related living benefit features in comparison to these scenarios. In calculating these amounts, we exclude separate account equity securities.

	As of December 31, 2014			As of December 31, 2013		
	Notional	Fair Value	Hypothetical Change in Fair Value	Notional	Fair Value	Hypothetical Change in Fair Value
	(in millions)					
Equity securities(1)		$ 12,152	$ (1,215)		$ 12,287	$ (1,229)
Equity-based derivatives(2)(3)	$ 73,138	69	1,617	$ 73,047	(85)	1,170
Variable annuity and other living benefit feature embedded derivatives(3)(4)		(8,182)	(1,193)		(441)	(852)
Net estimated potential loss			$ (791)			$ (911)

(1) Includes equity securities classified as trading account assets supporting insurance liabilities and other equity securities classified as trading securities under U.S. GAAP, but are held for other than trading activities in our segments that offer insurance, retirement and annuities products.
(2) Prior periods have been revised to include the gross notional amount and fair value of derivative contracts used in a broker-dealer capacity.
(3) The notional and fair value of equity-based derivatives and the fair value of variable annuity and other living benefit feature embedded derivatives are also reflected in amounts under Market Risk Related to Interest Rates above, and are not cumulative.
(4) Reflects only the gross change on the embedded derivatives, and excludes any offsetting impact of derivative instruments purchased to hedge such changes.

The net estimated potential loss decreased by $120 million. The estimated equity price risk associated with the living benefit features accounted for as embedded derivatives increased due to an increase in the value of the liability; however, this was more than offset by a change in risk associated with equity-based derivatives used to hedge these features. For a discussion of changes in derivatives, see Derivatives below. For an additional discussion of our variable annuity optional living benefit guarantees accounted for as embedded derivatives and related derivatives used to hedge the changes in fair value of these embedded derivatives, see Market Risk Related to Certain Variable Annuity Products below. For additional information regarding our capital hedging program, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources below.

Market Risk Related to Foreign Currency Exchange Rates

As a U.S.-based company with significant business operations outside of the U.S., particularly in Japan, we are exposed to foreign currency exchange rate risk related to these operations, as well as to our general account investment portfolio and other proprietary investment portfolios.

For our international insurance operations, changes in foreign currency exchange rates create risk that we may experience volatility in the U.S. dollar-equivalent earnings and equity of these operations. We actively manage this risk through various hedging strategies, including the use of foreign currency hedges and through holding U.S. dollar-denominated securities in the investment portfolios of certain of these operations. Additionally, our Japanese insurance operations offer a variety of non-yen denominated products which are supported by investments in corresponding currencies. While these non-yen denominated assets are economically matched, the accounting may differ for changes in the value of these assets and liabilities due to moves in foreign currency exchange rates, resulting in volatility in reported U.S. GAAP earnings. For certain of our international insurance operations outside of Japan, we elect to not hedge the risk of changes in our equity investments due to foreign exchange rate movements. For further information, see Management s Discussion and Analysis of Financial Condition and Results of Operations International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of

products denominated in non-local currencies above.

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For our domestic general account investment portfolios supporting our U.S. insurance operations and other proprietary investment portfolios, our foreign currency exchange rate risk arises primarily from investments that are denominated in foreign currencies. We manage this risk by hedging substantially all domestic foreign currency-denominated fixed-income investments into U.S. dollars. We generally do not hedge all of the foreign currency risk of our investments in equity securities of unaffiliated foreign entities.

We manage our foreign currency exchange rate risks within specified policy limits, and by using VaR-based analysis. This statistical technique estimates, at a specified confidence level, the potential pre-tax loss in portfolio market value that could occur over an assumed time horizon due to adverse market movements. For our equity investment in international subsidiaries, excluding our Japanese insurance operations, and the foreign currency-denominated investments held in our domestic general account portfolio, we estimate the potential loss based on end of period and average month-end VaR, each measured at a 95% confidence level and using a one-month time horizon. These calculations use historical price volatilities and correlation data at a 95% confidence level. The following table sets forth these measures as of the periods indicated.

	As of December 31, 2014			As of December 31, 2013		
	Fair Value	Estimated VaR	Average VaR	Fair Value	Estimated VaR	Average VaR
	(in millions)					
Unhedged portion of equity investment in international subsidiaries and foreign currency-denominated investments in domestic general account portfolio(1)	$ 4,726	$ (110)	$ (93)	$ 5,202	$ (99)	$ (115)

(1) Excludes assets and liabilities subject to the impact of foreign exchange rate movements that are hedged with externally-purchased derivatives or are economically matched, as discussed above.

For derivatives used to hedge the anticipated level of U.S. dollar-equivalent earnings of our international operations, the potential loss based on VaR, measured at a 95% confidence level and using a one-month time horizon, was $92 million and $68 million as of December 31, 2014 and December 31, 2013, respectively. For additional information, see Management s Discussion and Analysis of Financial Condition and Results of Operations General Account Investments Portfolio Composition and Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment International Insurance Division above.

Although VaR models are a recognized tool for risk management, they have inherent limitations, including reliance on historical data that may not be indicative of future market conditions or trading patterns. Accordingly, VaR models should not be viewed as a predictor of future results. We may incur losses that could be materially in excess of the amounts indicated by the models on a particular trading day or over a period of time, and there have been instances when results have fallen outside the values generated by our VaR models. A VaR model does not estimate the greatest possible loss. The results of these models and analysis thereof are subject to the judgment of our risk management personnel.

Derivatives

We use derivative financial instruments primarily to reduce market risk from changes in interest rates, equity prices and foreign currency exchange rates, including their use to alter interest rate or foreign currency exposures arising from mismatches between assets and liabilities. Our derivatives primarily include swaps, futures, options and forward contracts that are exchange-traded or contracted in the over-the-counter market.

Our derivatives also include interest rate guarantees we provide on our synthetic GIC products. Synthetic GICs simulate the performance of traditional insurance-related GICs but are accounted for as derivatives under U.S. GAAP due to the fact that the policyholders own the underlying assets, and we only provide a book value wrap on the customers funds, which are held in a client-owned trust. Since these wraps provide payment of guaranteed principal and interest to the customer, changes in interest rates create risk that declines in the market value of customers funds would increase our net exposure to these guarantees; however, this risk is minimal due to several mitigating factors. Our obligation is limited to payments that are in excess of the existing customers fund value. Additionally, we have the ability to periodically reset crediting rates, subject to a 0% minimum floor, as well as the ability to increase prices. Further, our contract provisions provide that, although participants may

withdraw funds at book value, contractholder withdrawals may only occur at market value immediately, or at book value over time. These factors, among others, result in these contracts experiencing minimal changes in fair value, despite a more significant notional value.

Our derivatives also include those that are embedded in certain financial instruments, and primarily relate to certain optional living benefit features associated with our variable annuity products, as discussed in more detail in Market Risk Related to Certain Variable Annuity Products below.

The notional amount of derivative instruments increased $20 billion in 2014, from $419 billion as of December 31, 2013 to $439 billion as of December 31, 2014. The increase was primarily related to our variable annuity and foreign exchange hedging activities. Notional amounts are presented on a gross basis and include derivatives used to offset existing positions. For additional information on our derivative activities, see Note 21 to the Consolidated Financial Statements below.

Market Risk Related to Certain Variable Annuity Products

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 and actuarial assumptions. For our capital markets assumptions, we hedge or limit our exposure to the risk created by capital markets fluctuations through a combination of product design elements, such as an automatic rebalancing element and inclusion of certain optional living benefits in our living benefits hedging program. Certain variable annuity optional living benefit features are accounted for as an embedded derivative and recorded at fair value. The market risk sensitivities associated with U.S. GAAP values of both the embedded derivatives and the related derivatives used to hedge the changes in fair value of these embedded derivatives are provided under Market Risk Related to Interest Rates and Market Risk Related to Equity Prices above.

For additional information regarding our risk management strategies, including our living benefit hedging program and other product design elements, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment Individual Annuities above.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED FINANCIAL STATEMENTS

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Management s Annual Report on Internal Control Over Financial Reporting

Management of Prudential Financial, Inc. (together with its consolidated subsidiaries, the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. Management conducted an assessment of the effectiveness, as of December 31, 2014, of the Company s internal control over financial reporting, based on the framework established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment under that framework, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2014.

Our internal control over financial reporting is a process designed by or under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing herein.

February 20, 2015

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Prudential Financial, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Prudential Financial, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15.2 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control Over Financial Reporting, listed in the accompanying index. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplemental combining financial information is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual components. Such supplemental information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 20, 2015

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PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Financial Position

December 31, 2014 and 2013 (in millions, except share amounts)

	2014	2013
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2014 $265,116; 2013 $268,727)(1)	$ 299,090	$ 286,866
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2014 $2,902; 2013 $3,553)(1)	2,575	3,312
Trading account assets supporting insurance liabilities, at fair value(1)	20,263	20,827
Other trading account assets, at fair value(1)	10,874	6,453
Equity securities, available-for-sale, at fair value (cost: 2014 $6,921; 2013 $7,003)	9,861	9,910
Commercial mortgage and other loans (includes $380 and $158 measured at fair value under the fair value option at December 31, 2014 and December 31, 2013, respectively)(1)	46,432	41,008
Policy loans	11,712	11,766
Other long-term investments (includes $1,082 and $873 measured at fair value under the fair value option at December 31, 2014 and December 31, 2013, respectively)(1)	10,921	10,328
Short-term investments	8,258	7,703
Total investments	419,986	398,173
Cash and cash equivalents(1)	14,918	11,439
Accrued investment income(1)	3,130	3,089
Deferred policy acquisition costs	15,971	16,512
Value of business acquired	2,836	3,675
Other assets(1)	13,379	13,833
Separate account assets	296,435	285,060
TOTAL ASSETS	$ 766,655	$ 731,781
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 217,766	$ 206,859
Policyholders account balances(1)	136,150	136,657
Policyholders dividends	7,661	5,515
Securities sold under agreements to repurchase	9,407	7,898
Cash collateral for loaned securities	4,241	5,040
Income taxes	9,881	5,422
Short-term debt	3,839	2,669
Long-term debt	19,831	23,553
Other liabilities(1)	13,037	13,925
Notes issued by consolidated variable interest entities (includes $6,033 and $3,254 measured at fair value under the fair value option at December 31, 2014 and December 31, 2013, respectively)(1)	6,058	3,302
Separate account liabilities	296,435	285,060
Total liabilities	724,306	695,900
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 23)		
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,339 and 660,111,319 shares issued at December 31, 2014 and December 31, 2013, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued at both December 31, 2014 and December 31, 2013)	0	0
Additional paid-in capital	24,565	24,475
Common Stock held in treasury, at cost (205,277,862 and 199,056,067 shares at December 31, 2014 and December 31, 2013, respectively)	(13,088)	(12,415)

Class B Stock held in treasury, at cost (2,000,000 and 0 shares at December 31, 2014 and December 31, 2013, respectively)	(651)	0
Accumulated other comprehensive income (loss)	16,050	8,681
Retained earnings	14,888	14,531
Total Prudential Financial, Inc. equity	41,770	35,278
Noncontrolling interests	579	603
Total equity	42,349	35,881
TOTAL LIABILITIES AND EQUITY	$ 766,655	$ 731,781

(1) See Note 5 for details of balances associated with variable interest entities.

See Notes to Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Operations

Years Ended December 31, 2014, 2013 and 2012 (in millions, except per share amounts)

	2014	2013	2012
REVENUES			
Premiums	$ 29,293	$ 26,237	$ 65,354
Policy charges and fee income	6,179	5,415	4,489
Net investment income	15,256	14,729	13,661
Asset management and service fees	3,719	3,485	3,053
Other income	(1,978)	(3,199)	(269)
Realized investment gains (losses), net:			
Other-than-temporary impairments on fixed maturity securities	(127)	(1,055)	(1,611)
Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income	71	856	1,274
Other realized investment gains (losses), net	1,692	(5,007)	(1,104)
Total realized investment gains (losses), net	1,636	(5,206)	(1,441)
Total revenues	54,105	41,461	84,847
BENEFITS AND EXPENSES			
Policyholders benefits	31,587	26,733	65,131
Interest credited to policyholders account balances	4,263	3,111	4,234
Dividends to policyholders	2,716	2,050	2,176
Amortization of deferred policy acquisition costs	1,973	240	1,504
General and administrative expenses	11,807	11,011	11,094
Total benefits and expenses	52,346	43,145	84,139
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,759	(1,684)	708
Total income tax expense (benefit)	349	(1,058)	213
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,410	(626)	495
Equity in earnings of operating joint ventures, net of taxes	16	59	60
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,426	(567)	555
Income (loss) from discontinued operations, net of taxes	12	7	15
NET INCOME (LOSS)	1,438	(560)	570
Less: Income (loss) attributable to noncontrolling interests	57	107	50
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	$ 1,381	$ (667)	$ 520
EARNINGS PER SHARE (See Note 16)			
Financial Services Businesses			
Basic earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 3.23	$ (1.57)	$ 1.02
Income (loss) from discontinued operations, net of taxes	0.02	0.02	0.04
Net income (loss) attributable to Prudential Financial, Inc.	$ 3.25	$ (1.55)	$ 1.06

Diluted earnings per share Common Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 3.20	$ (1.57)	$ 1.01
Income (loss) from discontinued operations, net of taxes	0.03	0.02	0.04
Net income (loss) attributable to Prudential Financial, Inc.	$ 3.23	$ (1.55)	$ 1.05
Dividends declared per share of Common Stock	$ 2.17	$ 1.73	$ 1.60
Closed Block Business			
Basic and Diluted earnings per share Class B Stock:			
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ (70.00)	$ 22.00	$ 11.50
Income (loss) from discontinued operations, net of taxes	0.56	0.00	(1.00)
Net income (loss) attributable to Prudential Financial, Inc.	$ (69.44)	$ 22.00	$ 10.50
Dividends declared per share of Class B Stock	$ 9.625	$ 9.625	$ 9.625

See Notes to Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2014, 2013 and 2012 (in millions)

	2014	2013	2012
NET INCOME (LOSS)	$ 1,438	$ (560)	$ 570
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments for the period	(1,081)	(1,487)	(263)
Net unrealized investment gains (losses)	13,730	(1,528)	8,632
Defined benefit pension and postretirement unrecognized periodic benefit	(1,043)	874	(699)
Total	11,606	(2,141)	7,670
Less: Income tax expense (benefit) related to other comprehensive income (loss)	4,249	(582)	2,667
Other comprehensive income (loss), net of taxes	7,357	(1,559)	5,003
Comprehensive income (loss)	8,795	(2,119)	5,573
Less: Comprehensive income (loss) attributable to noncontrolling interests	45	81	84
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$ 8,750	$ (2,200)	$ 5,489

See Notes to Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Equity(1)

Years Ended December 31, 2014, 2013 and 2012 (in millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Class B Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2011	$ 6	$ 24,293	$ 16,506	$ (11,920)	$ 0	$ 5,245	$ 34,130	$ 509	$ 34,639
Common and Class B Stock acquired									