PRUDENTIAL FINANCIAL INC
Form 10-K
February 20, 2015
Table of Contents

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.

Table of Contents

TABLE OF CONTENTS

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.

Table of Contents

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.

Table of Contents

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.

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.

3

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

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.

Table of Contents

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

Table of Contents

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.

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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

23

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

30

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

34

Table of Contents

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.

Table of Contents

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 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.

Table of Contents

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.

42

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 h