

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

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**FORM 10-Q**

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(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2016**

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Transition Period from                      to**

**Commission file number 033-37587**

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**Pruco Life Insurance  
Company**

(Exact name of Registrant as specified in its charter)

**Arizona**

(State or other jurisdiction of  
incorporation or organization)

**22-1944557**

(IRS Employer Identification No.)

**213 Washington Street, Newark, New Jersey 07102**

(Address of principal executive offices) (Zip Code)

**(973) 802-6000**

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(Registrant's Telephone Number, including area code)

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 ☒ 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 ☒ No ☐

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 | <input type="checkbox"/>            | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input checked="" type="checkbox"/> | Smaller reporting Company | <input type="checkbox"/> |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 12, 2016, 250,000 shares of the registrant's Common Stock (par value \$10), were outstanding. As of such date, The Prudential Insurance Company of America, a New Jersey corporation, owned all of the Registrant's Common Stock.

**Pruco Life Insurance Company meets the conditions set  
forth in General Instruction (H) (1) (a) and (b) on Form 10-Q and  
is therefore filing this Form 10-Q in the reduced disclosure format.**

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## FORWARD LOOKING STATEMENTS

Certain of the statements included in this Quarterly Report on Form 10-Q, 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 words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Pruco Life Insurance Company and its subsidiaries. There can be no assurance that future developments affecting Pruco Life Insurance Company 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) reestimates of our reserves for future policy benefits and claims; (6) 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; (7) changes in our assumptions related to deferred policy acquisition costs; (8) changes in our financial strength or credit ratings; (9) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (10) investment losses, defaults and counterparty non-performance; (11) competition in our product lines and for personnel; (12) difficulties in marketing and distributing products through current or future distribution channels; (13) changes in tax law; (14) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the U.S. Department of Labor's fiduciary rules; (15) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (16) adverse determinations in litigation or regulatory matters, and our exposure to contingent liabilities, including related to the remediation of certain securities lending activities administered by Prudential Financial, Inc.; (17) 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; (18) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (19) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (20) possible difficulties in executing, integrating and realizing projected results of acquisitions, divestitures and restructurings; and (21) changes in statutory or U.S. GAAP accounting principles, practices or policies. Pruco Life Insurance Company does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2015 for discussion of certain risks relating to our business and investment in our securities.

**PART I—FINANCIAL INFORMATION****ITEM 1. Financial Statements****PRUCO LIFE INSURANCE COMPANY****Unaudited Interim Consolidated Statements of Financial Position  
June 30, 2016 and December 31, 2015 (in thousands, except share amounts)**

|                                                                                                              | <b>June 30, 2016</b>  | <b>December 31, 2015</b> |
|--------------------------------------------------------------------------------------------------------------|-----------------------|--------------------------|
| <b>ASSETS</b>                                                                                                |                       |                          |
| Fixed maturities, available-for-sale, at fair value (amortized cost: 2016 – \$5,051,015; 2015 – \$6,775,806) | \$ 5,387,062          | \$ 6,840,932             |
| Equity securities, available-for-sale, at fair value (cost: 2016 – \$22,408; 2015 – \$54,609)                | 23,001                | 51,973                   |
| Trading account assets, at fair value                                                                        | 37,033                | 64,612                   |
| Policy loans                                                                                                 | 1,153,528             | 1,143,303                |
| Short-term investments                                                                                       | 42,212                | 54,806                   |
| Commercial mortgage and other loans                                                                          | 1,023,427             | 1,658,235                |
| Other long-term investments                                                                                  | 330,942               | 379,237                  |
| <b>Total investments</b>                                                                                     | <b>7,997,205</b>      | <b>10,193,098</b>        |
| Cash and cash equivalents                                                                                    | 326,812               | 370,286                  |
| Deferred policy acquisition costs                                                                            | 1,154,977             | 5,111,373                |
| Accrued investment income                                                                                    | 81,079                | 100,031                  |
| Reinsurance recoverables                                                                                     | 30,853,161            | 22,546,361               |
| Receivables from parent and affiliates                                                                       | 230,587               | 228,253                  |
| Deferred sales inducements                                                                                   | 0                     | 684,844                  |
| Other assets                                                                                                 | 292,016               | 59,578                   |
| Separate account assets                                                                                      | 112,954,476           | 109,350,121              |
| <b>TOTAL ASSETS</b>                                                                                          | <b>\$ 153,890,313</b> | <b>\$ 148,643,945</b>    |
| <b>LIABILITIES AND EQUITY</b>                                                                                |                       |                          |
| <b>LIABILITIES</b>                                                                                           |                       |                          |
| Policyholders' account balances                                                                              | \$ 17,707,166         | \$ 17,164,705            |
| Future policy benefits                                                                                       | 19,410,550            | 15,031,390               |
| Cash collateral for loaned securities                                                                        | 156,688               | 40,416                   |
| Income taxes                                                                                                 | 170,982               | 154,043                  |
| Short-term debt to affiliates                                                                                | 0                     | 180,000                  |
| Long-term debt to affiliates                                                                                 | 0                     | 1,204,000                |
| Payables to parent and affiliates                                                                            | 55,568                | 72,791                   |
| Other liabilities                                                                                            | 766,609               | 935,662                  |
| Separate account liabilities                                                                                 | 112,954,476           | 109,350,121              |
| <b>TOTAL LIABILITIES</b>                                                                                     | <b>151,222,039</b>    | <b>144,133,128</b>       |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 6)</b>                                                   |                       |                          |
| <b>EQUITY</b>                                                                                                |                       |                          |
| Common stock (\$10 par value; 1,000,000 shares authorized; 250,000 shares issued and outstanding)            | 2,500                 | 2,500                    |
| Additional paid-in capital                                                                                   | 986,063               | 779,973                  |
| Retained earnings                                                                                            | 1,438,695             | 3,663,539                |
| Accumulated other comprehensive income                                                                       | 241,016               | 64,805                   |
| <b>TOTAL EQUITY</b>                                                                                          | <b>2,668,274</b>      | <b>4,510,817</b>         |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                                          | <b>\$ 153,890,313</b> | <b>\$ 148,643,945</b>    |

See Notes to Unaudited Interim Consolidated Financial Statements

## PRUCO LIFE INSURANCE COMPANY

**Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**Three and Six Months Ended June 30, 2016 and 2015 (in thousands)**

|                                                                                                         | Three Months Ended<br>June 30, |            | Six Months Ended June 30, |            |
|---------------------------------------------------------------------------------------------------------|--------------------------------|------------|---------------------------|------------|
|                                                                                                         | 2016                           | 2015       | 2016                      | 2015       |
| <b>REVENUES</b>                                                                                         |                                |            |                           |            |
| Premiums                                                                                                | \$ (852,092)                   | \$ 23,482  | \$ (834,177)              | \$ 39,119  |
| Policy charges and fee income                                                                           | 41,848                         | 530,033    | 569,255                   | 1,070,798  |
| Net investment income                                                                                   | 78,619                         | 101,486    | 184,071                   | 204,906    |
| Asset administration fees                                                                               | 3,604                          | 102,365    | 76,395                    | 201,052    |
| Other income                                                                                            | (8,599)                        | 15,013     | 4,923                     | 32,230     |
| Realized investment gains (losses), net:                                                                |                                |            |                           |            |
| Other-than-temporary impairments on fixed maturity securities                                           | (248)                          | (382)      | (16,597)                  | (415)      |
| Other-than-temporary impairments on fixed maturity securities transferred to other comprehensive income | 139                            | 10         | 338                       | 32         |
| Other realized investment gains (losses), net                                                           | 860,571                        | (170,284)  | 931,872                   | (111,248)  |
| Total realized investment gains (losses), net                                                           | 860,462                        | (170,656)  | 915,613                   | (111,631)  |
| <b>TOTAL REVENUES</b>                                                                                   | 123,842                        | 601,723    | 916,080                   | 1,436,474  |
| <b>BENEFITS AND EXPENSES</b>                                                                            |                                |            |                           |            |
| Policyholders' benefits                                                                                 | (430,437)                      | 57,266     | (331,909)                 | 115,667    |
| Interest credited to policyholders' account balances                                                    | 27,976                         | 48,243     | 214,407                   | 165,720    |
| Amortization of deferred policy acquisition costs                                                       | (29,866)                       | (13,691)   | 610,687                   | 289,060    |
| General, administrative and other expenses                                                              | (133,138)                      | 273,770    | 103,814                   | 532,316    |
| <b>TOTAL BENEFITS AND EXPENSES</b>                                                                      | (565,465)                      | 365,588    | 596,999                   | 1,102,763  |
| <b>INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES</b>                                                | 689,307                        | 236,135    | 319,081                   | 333,711    |
| Income tax expense (benefit)                                                                            | (5,499)                        | 21,706     | (49,594)                  | 35,052     |
| <b>NET INCOME (LOSS)</b>                                                                                | \$ 694,806                     | \$ 214,429 | \$ 368,675                | \$ 298,659 |
| Other comprehensive income (loss), before tax:                                                          |                                |            |                           |            |
| Foreign currency translation adjustments                                                                | (96)                           | 182        | 121                       | (338)      |
| Net unrealized investment gains (losses):                                                               |                                |            |                           |            |
| Unrealized investment gains (losses) for the period                                                     | 182,367                        | (205,640)  | 344,649                   | (123,909)  |
| Reclassification adjustment for (gains) losses included in net income (loss)                            | (88,601)                       | (1,930)    | (73,677)                  | (4,044)    |
| Net unrealized investment gains (losses)                                                                | 93,766                         | (207,570)  | 270,972                   | (127,953)  |
| Other comprehensive income (loss), before tax                                                           | 93,670                         | (207,388)  | 271,093                   | (128,291)  |
| Less: Income tax expense (benefit) related to:                                                          |                                |            |                           |            |
| Foreign currency translation adjustments                                                                | (34)                           | 64         | 42                        | (118)      |
| Net unrealized investment gains (losses)                                                                | 32,819                         | (72,448)   | 94,840                    | (44,582)   |
| Total                                                                                                   | 32,785                         | (72,384)   | 94,882                    | (44,700)   |
| Other comprehensive income (loss), net of tax                                                           | 60,885                         | (135,004)  | 176,211                   | (83,591)   |
| <b>COMPREHENSIVE INCOME (LOSS)</b>                                                                      | \$ 755,691                     | \$ 79,425  | \$ 544,886                | \$ 215,068 |

See Notes to Unaudited Interim Consolidated Financial Statements

**PRUCO LIFE INSURANCE COMPANY**  
**Unaudited Interim Consolidated Statements of Equity**  
**Six Months Ended June 30, 2016 and 2015 (in thousands)**

|                                                                | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total Equity        |
|----------------------------------------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------------------|---------------------|
| <b>Balance, December 31, 2015</b>                              | \$ 2,500        | \$ 779,973                       | \$ 3,663,539         | \$ 64,805                                                 | \$ 4,510,817        |
| Contributed capital                                            | 0               | 205,000                          | 0                    | 0                                                         | 205,000             |
| Dividend to parent                                             | 0               | 0                                | (2,593,519)          | 0                                                         | (2,593,519)         |
| Contributed (distributed) capital-parent/child asset transfers | 0               | 1,090                            | 0                    | 0                                                         | 1,090               |
| Comprehensive income (loss):                                   |                 |                                  |                      |                                                           |                     |
| Net income (loss)                                              | 0               | 0                                | 368,675              | 0                                                         | 368,675             |
| Other comprehensive income (loss), net of tax                  | 0               | 0                                | 0                    | 176,211                                                   | 176,211             |
| Total comprehensive income (loss)                              |                 |                                  |                      |                                                           | 544,886             |
| <b>Balance, June 30, 2016</b>                                  | <u>\$ 2,500</u> | <u>\$ 986,063</u>                | <u>\$ 1,438,695</u>  | <u>\$ 241,016</u>                                         | <u>\$ 2,668,274</u> |

|                                                                | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total Equity        |
|----------------------------------------------------------------|-----------------|----------------------------------|----------------------|-----------------------------------------------------------|---------------------|
| <b>Balance, December 31, 2014</b>                              | \$ 2,500        | \$ 792,153                       | \$ 3,580,641         | \$ 178,691                                                | \$ 4,553,985        |
| Dividend to parent                                             | 0               | 0                                | (230,000)            | 0                                                         | (230,000)           |
| Contributed (distributed) capital-parent/child asset transfers | 0               | (12,180)                         | 0                    | 0                                                         | (12,180)            |
| Comprehensive income (loss):                                   |                 |                                  |                      |                                                           |                     |
| Net income (loss)                                              | 0               | 0                                | 298,659              | 0                                                         | 298,659             |
| Other comprehensive income (loss), net of tax                  | 0               | 0                                | 0                    | (83,591)                                                  | (83,591)            |
| Total comprehensive income (loss)                              |                 |                                  |                      |                                                           | 215,068             |
| <b>Balance, June 30, 2015</b>                                  | <u>\$ 2,500</u> | <u>\$ 779,973</u>                | <u>\$ 3,649,300</u>  | <u>\$ 95,100</u>                                          | <u>\$ 4,526,873</u> |

See Notes to Unaudited Interim Consolidated Financial Statements

**PRUCO LIFE INSURANCE COMPANY**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
**Six Months Ended June 30, 2016 and 2015 (in thousands)**

|                                                                                          | 2016                | 2015                |
|------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                             |                     |                     |
| Net income (loss)                                                                        | \$ 368,675          | \$ 298,659          |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                     |                     |
| Policy charges and fee income                                                            | 78,763              | (631)               |
| Interest credited to policyholders' account balances                                     | 214,407             | 165,720             |
| Realized investment (gains) losses, net                                                  | (915,613)           | 111,631             |
| Amortization and other non-cash items                                                    | (21,890)            | (36,806)            |
| Change in:                                                                               |                     |                     |
| Future policy benefits                                                                   | 659,730             | 753,124             |
| Reinsurance recoverables                                                                 | (326,993)           | (767,317)           |
| Accrued investment income                                                                | 18,952              | (3,085)             |
| Net payable to/receivable from parent and affiliates                                     | (33,754)            | (13,058)            |
| Deferred policy acquisition costs                                                        | 408,155             | (7,934)             |
| Income taxes                                                                             | (78,531)            | (14,390)            |
| Deferred sales inducements                                                               | (1,825)             | (3,969)             |
| Derivatives, net                                                                         | (182,828)           | (65,542)            |
| Other, net                                                                               | (181,862)           | (24,523)            |
| <b>Cash flows from (used in) operating activities</b>                                    | <b>\$ 5,386</b>     | <b>\$ 391,879</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                             |                     |                     |
| Proceeds from the sale/maturity/prepayment of:                                           |                     |                     |
| Fixed maturities, available-for-sale                                                     | \$ 798,298          | \$ 431,458          |
| Short-term investments                                                                   | 238,471             | 500,631             |
| Policy loans                                                                             | 71,542              | 60,685              |
| Ceded policy loans                                                                       | (4,807)             | (3,639)             |
| Commercial mortgage and other loans                                                      | 159,171             | 49,051              |
| Other long-term investments                                                              | 3,365               | 6,902               |
| Equity securities, available-for-sale                                                    | 28,452              | 0                   |
| Trading account assets                                                                   | 0                   | 991                 |
| Payments for the purchase/origination of:                                                |                     |                     |
| Fixed maturities, available-for-sale                                                     | (1,410,624)         | (852,120)           |
| Short-term investments                                                                   | (225,819)           | (456,792)           |
| Policy loans                                                                             | (60,677)            | (52,453)            |
| Ceded policy loans                                                                       | 8,355               | 5,868               |
| Commercial mortgage and other loans                                                      | (133,580)           | (114,378)           |
| Other long-term investments                                                              | (18,853)            | (21,089)            |
| Equity securities, available-for-sale                                                    | (5,000)             | (5,010)             |
| Trading account assets                                                                   | 0                   | (12,001)            |
| Notes receivable from parent and affiliates, net                                         | 19,100              | 8,470               |
| Derivatives, net                                                                         | (5,019)             | (7,777)             |
| Other, net                                                                               | 0                   | 1,164               |
| <b>Cash flows from (used in) investing activities</b>                                    | <b>\$ (537,625)</b> | <b>\$ (460,039)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                             |                     |                     |
| Policyholders' account deposits                                                          | \$ 2,105,500        | \$ 1,763,866        |
| Ceded policyholders' account deposits                                                    | (584,464)           | (497,677)           |
| Policyholders' account withdrawals                                                       | (1,252,615)         | (1,006,256)         |
| Ceded policyholders' account withdrawals                                                 | 32,053              | 26,208              |
| Net change in cash collateral for loaned securities                                      | 116,272             | 44,380              |
| Dividend to parent                                                                       | 0                   | (230,000)           |
| Contributed capital                                                                      | 205,000             | 0                   |
| Contributed (distributed) capital - parent/child asset transfers                         | 1,676               | (18,739)            |
| Proceeds from the issuance of debt (maturities longer than 90 days)                      | 0                   | 72,000              |
| Repayments of debt (maturities longer than 90 days)                                      | (125,000)           | (129,000)           |
| Drafts outstanding                                                                       | (9,657)             | (73)                |
| <b>Cash flows from (used in) financing activities</b>                                    | <b>\$ 488,765</b>   | <b>\$ 24,709</b>    |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                              | <b>(43,474)</b>     | <b>(43,451)</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                      | <b>370,286</b>      | <b>214,952</b>      |

|                                          |            |            |
|------------------------------------------|------------|------------|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 326,812 | \$ 171,501 |
|------------------------------------------|------------|------------|

### **Significant Non-Cash Transactions**

Cash Flows from Investing and Financing Activities for the six months ended June 30, 2016 excludes certain non-cash transactions related to the Variable Annuities Recapture. See Note 1 for additional information.

See Notes to Unaudited Interim Consolidated Financial Statements

**PRUCO LIFE INSURANCE COMPANY**  
**Notes to Unaudited Interim Consolidated Financial Statements**

**1. BUSINESS AND BASIS OF PRESENTATION**

Pruco Life Insurance Company ("Pruco Life") is a wholly-owned subsidiary of The Prudential Insurance Company of America ("Prudential Insurance"), which in turn is a direct wholly-owned subsidiary of Prudential Financial, Inc. ("Prudential Financial"). Pruco Life is a stock life insurance company organized in 1971 under the laws of the State of Arizona. It is licensed to sell life insurance and annuities in the District of Columbia, Guam and in all States except New York, and sells such products primarily through affiliated and unaffiliated distributors.

Pruco Life has two subsidiaries, including one wholly-owned insurance subsidiary, Pruco Life Insurance Company of New Jersey ("PLNJ") and one indirect subsidiary formed in 2009 for the purpose of holding certain commercial loan investments. Pruco Life and its subsidiaries are together referred to as the "Company", "we" or "our" and all financial information is shown on a consolidated basis.

PLNJ is a stock life insurance company organized in 1982 under the laws of the state of New Jersey. It is licensed to sell life insurance and annuities in New Jersey and New York only.

Through March 31, 2016, the Company reinsured the majority of its variable annuity living benefit guarantees to an affiliated reinsurance company, Pruco Reinsurance, Ltd. ("Pruco Re"). Effective April 1, 2016, the Company recaptured the risks related to its variable annuity living benefit riders that were previously reinsured to Pruco Re. In addition, the Company reinsured variable annuity base contracts, along with the living benefit riders, to Prudential Annuities Life Assurance Corporation ("PALAC"), excluding the PLNJ business, which was reinsured to Prudential Insurance, in each case under a coinsurance and modified coinsurance agreement. These reinsurance agreements cover new and in force business and exclude business reinsured externally. The product risks related to the reinsured business are being managed in PALAC and Prudential Insurance. In addition, the living benefit hedging program related to the reinsured living benefit riders is being managed within PALAC and Prudential Insurance. These series of transactions are collectively referred to as the "Variable Annuities Recapture."

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The financial statement impacts of these transactions were as follows:

Effected Financial Statement Lines Only

**Interim Statement of Financial Position**

|                                                | Balance as of<br>March 31, 2016 | Impacts of Recapture | Impacts of Reinsurance | Total          |
|------------------------------------------------|---------------------------------|----------------------|------------------------|----------------|
| (in millions)                                  |                                 |                      |                        |                |
| <b>ASSETS</b>                                  |                                 |                      |                        |                |
| Total investments(1)                           | \$ 10,702                       | \$ 4,166             | \$ (7,719)             | \$ 7,149       |
| Cash and cash equivalents                      | 496                             | 0                    | 12                     | 508            |
| Deferred policy acquisition costs              | 4,565                           | 0                    | (3,449)                | 1,116          |
| Reinsurance recoverables                       | 24,781                          | (6,312)              | 10,267                 | 28,736         |
| Deferred sales inducements                     | 550                             | 0                    | (550)                  | 0              |
| Other assets                                   | 94                              | 0                    | 211                    | 305            |
| Income taxes                                   | 0                               | 0                    | 23                     | 23             |
| <b>TOTAL ASSETS</b>                            | <b>151,859</b>                  | <b>(2,146)</b>       | <b>(1,205)</b>         | <b>148,508</b> |
| <b>LIABILITIES AND EQUITY</b>                  |                                 |                      |                        |                |
| <b>LIABILITIES</b>                             |                                 |                      |                        |                |
| Income taxes                                   | \$ 91                           | \$ 17                | \$ 0                   | \$ 108         |
| Short-term and long-term debt to affiliates(2) | 1,385                           | 0                    | (1,384)                | 1              |
| Other liabilities                              | 870                             | 0                    | 0                      | 870            |
| <b>TOTAL LIABILITIES</b>                       | <b>147,554</b>                  | <b>17</b>            | <b>(1,384)</b>         | <b>146,187</b> |
| <b>EQUITY</b>                                  |                                 |                      |                        |                |
| Retained Earnings(3)                           | 3,337                           | (2,163)              | 258                    | 1,432          |
| Accumulated other comprehensive income         | 180                             | 0                    | (79)                   | 101            |
| <b>TOTAL EQUITY</b>                            | <b>4,305</b>                    | <b>(2,163)</b>       | <b>179</b>             | <b>2,321</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>            | <b>151,859</b>                  | <b>(2,146)</b>       | <b>(1,205)</b>         | <b>148,508</b> |

**Significant Non-Cash Transactions**

- (1) The decline in total investments includes non-cash activities of \$7.7 billion for asset transfers related to the reinsurance transaction with PALAC and Prudential Insurance, partially offset by \$4.2 billion of assets received related to the recapture transaction with Pruco Re.
- (2) The Company received ceding commissions of \$3.6 billion and \$0.4 billion from PALAC and Prudential Insurance, respectively, of which \$1.1 billion and \$0.1 billion were in the form of reassignment of debt to PALAC and Prudential Insurance, respectively.
- (3) Retained earnings includes dividends of \$2.6 billion to Prudential Insurance, and then distributed to Prudential Financial, as part of the Variable Annuities Recapture.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**
**Interim Statement of Operations and Comprehensive Income (Loss)  
For the Three and Six Months Ended June 30, 2016**

|                                                   | Impacts of Recapture | Impacts of Reinsurance | Total Impacts |
|---------------------------------------------------|----------------------|------------------------|---------------|
|                                                   | (in millions)        |                        |               |
| REVENUES                                          |                      |                        |               |
| Premiums                                          | \$ 0                 | \$ (880)               | \$ (880)      |
| Realized investment gains (losses), net           | (2,146)              | 2,951                  | 805           |
| TOTAL REVENUES                                    | (2,146)              | 2,071                  | (75)          |
| BENEFITS AND EXPENSES                             |                      |                        |               |
| Policyholders' benefits                           | 0                    | (547)                  | (547)         |
| General, administrative and other expenses        | 0                    | (211)                  | (211)         |
| TOTAL BENEFITS AND EXPENSES                       | 0                    | (758)                  | (758)         |
| INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES | (2,146)              | 2,829                  | 683           |
| Income tax expenses (benefit)                     | 17                   | (23)                   | (6)           |
| NET INCOME (LOSS)                                 | \$ (2,163)           | \$ 2,852               | \$ 689        |

**Affiliated Asset Transfers**

| Affiliate            | Period          | Transaction | Security Type                                                                                   | Fair Value | Book Value | APIC and Retained Earnings Increase/(Decrease) | Realized Investment Gain/(Loss), Net | Derivative Gain/(Loss) |
|----------------------|-----------------|-------------|-------------------------------------------------------------------------------------------------|------------|------------|------------------------------------------------|--------------------------------------|------------------------|
| (in millions)        |                 |             |                                                                                                 |            |            |                                                |                                      |                        |
| Pruco Re             | Apr - June 2016 | Purchase    | Derivatives                                                                                     | \$ 4,166   | \$ 4,166   | \$ 0                                           | \$ 0                                 | \$ 0                   |
| PALAC                | Apr - June 2016 | Sale        | Fixed Maturity, Trading Account Assets, Commercial Mortgages, Derivatives and JV/LP Investments | \$ (6,994) | \$ (6,872) | \$ 0                                           | \$ 122                               | \$ 0                   |
| Prudential Insurance | Apr - June 2016 | Dividend    | Fixed Maturity                                                                                  | \$ (19)    | \$ (19)    | \$ (19)                                        | \$ 0                                 | \$ 0                   |
| Prudential Insurance | Apr - June 2016 | Sale        | Fixed Maturity, Trading Account Assets, Equity Security, Commercial Mortgages and Derivatives   | \$ (717)   | \$ (703)   | \$ 15                                          | \$ 0                                 | \$ 0                   |

As part of the recapture transaction, the Company received invested assets of \$4.2 billion as consideration from Pruco Re, which is equivalent to the amount of statutory reserve credit taken as of March 31, 2016 and unwound the associated reinsurance recoverable of \$6.3 billion. As a result, the Company recognized a loss of \$2.1 billion immediately.

As part of the reinsurance transaction, the Company transferred invested assets of \$7.0 billion and \$0.7 billion to PALAC and Prudential Insurance, respectively, and established reinsurance recoverables of \$10.3 billion. In addition, the Company received ceding commissions of \$3.6 billion and \$0.4 billion from PALAC and Prudential Insurance, respectively, of which \$1.1 billion and \$0.1 billion were in the form of reassignment of debt to PALAC and Prudential Insurance, respectively. Also, the Company unwound its deferred policy acquisition costs ("DAC") and deferred sales inducements ("DSI") balances as of March 31, 2016, which was equivalent to the ceding commission. For the reinsurance of the variable annuity base contracts, the Company recognized a loss of \$0.2 billion, which was deferred through General, administrative and other expenses. For the reinsurance of the living benefit riders, the Company recognized a benefit of \$2.8 billion immediately since they are accounted for as free-standing derivatives.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The Company paid a dividend of \$2.6 billion to Prudential Insurance, which then distributed to Prudential Financial.

***Basis of Presentation***

The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (“SEC”). Intercompany balances and transactions have been eliminated.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company’s Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; amortization of deferred sales inducements (“DSI”); valuation of investments including derivatives and the recognition of other-than-temporary impairments (“OTTI”); future policy benefits including guarantees; reinsurance recoverables; provision for income taxes and valuation of deferred tax assets; and accruals for contingent liabilities, including estimates for losses in connection with unresolved legal matters.

***Out of Period Adjustments***

During the second quarter of 2016, the Company recorded an out of period adjustment resulting in a decrease of \$40 million to “Income from operations before income taxes” for the three month period ended June 30, 2016. The adjustment reflects a charge to increase reserves, net of related increases in deferred policy acquisition costs and reinsurance recoverables, for certain Universal Life products. Management evaluated the adjustment and concluded it was not material to the current quarter or to any previously reported quarterly or annual financial statements.

***Reclassifications***

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

**2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS**

This section supplements, and should be read in conjunction with, Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

***Adoption of New Accounting Pronouncements***

In May 2015, the Financial Accounting Standards Board (“FASB”) issued guidance (Accounting Standards Update (“ASU”) 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*) to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2015, and was applied retrospectively. Adoption of the guidance did not have a significant effect on the Company’s financial statement disclosures. See Note 4.

In February 2015, the FASB issued updated guidance (ASU 2015-02, *Consolidation (Topic 810): Amendments to Consolidation Analysis*) that modifies the rules regarding consolidation. The pronouncement eliminates specialized guidance for limited partnerships and similar legal entities, and removes the indefinite deferral for certain investment funds. The new guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption

## PRUCO LIFE INSURANCE COMPANY

## Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

permitted. The Company adopted the updated guidance effective January 1, 2016 and applied the modified retrospective method of adoption. This guidance did not have a significant impact on the Company's consolidated financial position, results of operations, or financial statement disclosures.

In August 2014, the FASB issued updated guidance (ASU 2014-14, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*) requiring that mortgage loans be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2014, and was applied prospectively. Adoption of the guidance did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

In August 2014, the FASB issued updated guidance (ASU 2014-13, *Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity*) for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity. Under the guidance, an entity within scope is permitted to measure both the financial assets and financial liabilities of a consolidated collateralized financing entity based on either the fair value of the financial assets or the financial liabilities, whichever is more observable. If adopted, the guidance eliminates the measurement difference that exists when both are measured at fair value. The Company adopted the updated guidance effective January 1, 2016, and applied the modified retrospective method of adoption. This guidance did not have a significant impact on the Company's consolidated financial position, results of operations, or financial statement disclosures.

In June 2014, the FASB issued updated guidance (ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*) that requires repurchase-to-maturity transactions to be accounted for as secured borrowings and eliminates existing guidance for repurchase financings. The guidance also requires new disclosures for certain transactions accounted for as secured borrowings and for transfers accounted for as sales when the transferor also retains substantially all of the exposure to the economic return on the transferred financial assets. Accounting changes and new disclosures for transfers accounted for as sales under the new guidance were effective for the first interim or annual period beginning after December 15, 2014 and did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures. Disclosures for certain transactions accounted for as secured borrowings were effective for interim periods beginning after March 15, 2015 and are included in Note 3. The Company applied the modified retrospective method of adoption.

In January 2014, the FASB issued updated guidance (ASU 2014-04, *Receivables-Troubled Debt Restructuring by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*) for troubled debt restructurings clarifying when an in-substance repossession or foreclosure occurs, and when a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The new guidance became effective for annual periods and interim periods within those annual periods that began after December 15, 2014 and was applied prospectively. Adoption of the guidance did not have a significant effect on the Company's consolidated financial position, results of operations or financial statement disclosures.

In January 2014, the FASB issued updated guidance (ASU 2014-01, *Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*) regarding investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. Under the guidance, an entity is permitted to make an accounting policy election to amortize the initial cost of its investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the statement of operations as a component of income tax expense (benefit) if certain conditions are met. The new guidance became effective for annual periods and interim reporting periods within those annual periods that began after December 15, 2014. The Company did not elect the proportional amortization method under this guidance.

**Future Adoption of New Accounting Pronouncements**

In May 2014, the FASB issued updated guidance (ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*) on accounting for revenue recognition. The guidance is based on the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from cost incurred to obtain or fulfill a contract. Revenue recognition for insurance contracts is explicitly scoped out of the guidance.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

In August 2015, the FASB issued an update to defer the original effective date of this guidance. As a result of the deferral, the new guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017 and must be applied using one of two retrospective application methods. Early adoption is permitted for only annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In January 2016, the FASB issued updated guidance (ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*) on the recognition and measurement of financial assets and financial liabilities. The guidance revises an entity's accounting related to the classification and measurement of certain equity investments and the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance also amends certain disclosure requirements associated with the fair value of financial instruments. The new guidance is effective for annual periods and interim reporting periods within those annual periods beginning after December 15, 2017. Early adoption is not permitted except for the provisions related to the presentation of certain fair value changes for financial liabilities measured at fair value. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In February 2016, the FASB issued guidance (ASU 2016-02, *Leases (Topic 842)*) that ensures assets and liabilities from all outstanding lease contracts are recognized on balance sheet (with limited exception). The guidance substantially changes a Lessee's accounting for leases and requires the recording on balance sheet of a "right-of-use" asset and liability to make lease payments for most leases. A Lessee will continue to recognize expense in its income statement in a manner similar to the requirements under the current lease accounting guidance. For Lessors, the guidance modifies classification criteria and accounting for sales-type and direct financing leases and requires a Lessor to derecognize the carrying value of the leased asset that is considered to have been transferred to a Lessee and record a lease receivable and residual asset ("receivable and residual" approach). The guidance also eliminates the real estate specific provisions of the current guidance (i.e., sale-leaseback). The new guidance is effective for financial statements issued for annual reporting periods beginning after December 15, 2018 and for interim periods within those annual periods. Early adoption is permitted. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In March 2016, the FASB issued guidance (ASU 2016-07, *Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*) to simplify the transition to equity method when an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The amendments are effective for financial statements issued for annual reporting periods beginning after December 15, 2016 and for interim periods within those annual periods. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

In June 2016, the FASB issued guidance (ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*) that provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held to maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The guidance also modifies the current other-than-temporary impairment guidance for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces existing guidance for purchased credit deteriorated loans and debt securities. The new guidance is effective for financial statements issued by public entities for annual reporting periods beginning after December 15, 2019, and for interim periods within those annual periods. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations and financial statement disclosures.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**
**3. INVESTMENTS**
***Fixed Maturities and Equity Securities***

The following tables provide information relating to fixed maturities and equity securities (excluding investments classified as trading) as of the dates indicated:

|                                                                                      | June 30, 2016     |                              |                                                 |               |                    |
|--------------------------------------------------------------------------------------|-------------------|------------------------------|-------------------------------------------------|---------------|--------------------|
|                                                                                      | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses<br>(in thousands) | Fair<br>Value | OTTI<br>in AOCI(3) |
| <b>Fixed maturities, available-for-sale</b>                                          |                   |                              |                                                 |               |                    |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 97,295         | \$ 9,147                     | \$ 0                                            | \$ 106,442    | \$ 0               |
| Obligations of U.S. states and their political subdivisions                          | 535,802           | 60,097                       | 0                                               | 595,899       | 0                  |
| Foreign government bonds                                                             | 84,275            | 4,863                        | 184                                             | 88,954        | 0                  |
| Public utilities                                                                     | 636,650           | 68,052                       | 2,802                                           | 701,900       | 0                  |
| Redeemable preferred stock                                                           | 4,818             | 975                          | 200                                             | 5,593         | 0                  |
| All other U.S. public corporate securities                                           | 1,675,441         | 145,623                      | 8,071                                           | 1,812,993     | (241)              |
| All other U.S. private corporate securities                                          | 670,299           | 30,256                       | 4,473                                           | 696,082       | (230)              |
| All other foreign public corporate securities                                        | 183,326           | 12,385                       | 1,613                                           | 194,098       | 0                  |
| All other foreign private corporate securities                                       | 571,278           | 14,102                       | 18,075                                          | 567,305       | 0                  |
| Asset-backed securities(1)                                                           | 196,034           | 4,855                        | 1,385                                           | 199,504       | (2,557)            |
| Commercial mortgage-backed securities                                                | 310,468           | 16,861                       | 37                                              | 327,292       | 0                  |
| Residential mortgage-backed securities(2)                                            | 85,329            | 5,701                        | 30                                              | 91,000        | (297)              |
| Total fixed maturities, available-for-sale                                           | \$ 5,051,015      | \$ 372,917                   | \$ 36,870                                       | \$ 5,387,062  | \$ (3,325)         |
| <b>Equity securities, available-for-sale</b>                                         |                   |                              |                                                 |               |                    |
| Common stocks:                                                                       |                   |                              |                                                 |               |                    |
| Public utilities                                                                     | \$ 66             | \$ 3                         | \$ 19                                           | \$ 50         |                    |
| Industrial, miscellaneous & other                                                    | 0                 | 191                          | 0                                               | 191           |                    |
| Mutual funds                                                                         | 22,342            | 718                          | 300                                             | 22,760        |                    |
| Non-redeemable preferred stocks                                                      | 0                 | 0                            | 0                                               | 0             |                    |
| Total equity securities, available-for-sale                                          | \$ 22,408         | \$ 912                       | \$ 319                                          | \$ 23,001     |                    |

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

(3) Represents the amount of OTTI losses in Accumulated Other Comprehensive Income ("AOCI"), which were not included in earnings. Amount excludes \$8 million of net unrealized gains on impaired available-for-sale securities relating to changes in the value of such securities subsequent to the impairment measurement date.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                                      | December 31, 2015 |                              |                               |               |                    |
|--------------------------------------------------------------------------------------|-------------------|------------------------------|-------------------------------|---------------|--------------------|
|                                                                                      | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | OTTI<br>in AOCI(3) |
|                                                                                      | (in thousands)    |                              |                               |               |                    |
| Fixed maturities, available-for-sale                                                 |                   |                              |                               |               |                    |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 87,107         | \$ 7,170                     | \$ 228                        | \$ 94,049     | \$ 0               |
| Obligations of U.S. states and their political subdivisions                          | 602,508           | 24,219                       | 1,958                         | 624,769       | 0                  |
| Foreign government bonds                                                             | 70,107            | 3,094                        | 2,791                         | 70,410        | 0                  |
| Public utilities                                                                     | 790,038           | 30,862                       | 18,402                        | 802,498       | 0                  |
| Redeemable preferred stock                                                           | 5,316             | 1,530                        | 145                           | 6,701         | 0                  |
| All other U.S. public corporate securities                                           | 2,138,358         | 81,905                       | 61,142                        | 2,159,121     | (217)              |
| All other U.S. private corporate securities                                          | 1,085,345         | 26,299                       | 13,963                        | 1,097,681     | 0                  |
| All other foreign public corporate securities                                        | 270,063           | 8,230                        | 6,508                         | 271,785       | 0                  |
| All other foreign private corporate securities                                       | 784,283           | 9,933                        | 42,528                        | 751,688       | 0                  |
| Asset-backed securities(1)                                                           | 431,578           | 6,203                        | 2,650                         | 435,131       | (3,056)            |
| Commercial mortgage-backed securities                                                | 396,160           | 10,614                       | 2,429                         | 404,345       | 0                  |
| Residential mortgage-backed securities(2)                                            | 114,943           | 7,876                        | 65                            | 122,754       | (690)              |
| Total fixed maturities, available-for-sale                                           | \$ 6,775,806      | \$ 217,935                   | \$ 152,809                    | \$ 6,840,932  | \$ (3,963)         |
| Equity securities, available-for-sale                                                |                   |                              |                               |               |                    |
| Common stocks:                                                                       |                   |                              |                               |               |                    |
| Public utilities                                                                     | \$ 66             | \$ 2                         | \$ 29                         | \$ 39         |                    |
| Industrial, miscellaneous & other                                                    | 0                 | 165                          | 0                             | 165           |                    |
| Mutual funds                                                                         | 54,543            | 256                          | 3,030                         | 51,769        |                    |
| Non-redeemable preferred stocks                                                      | 0                 | 0                            | 0                             | 0             |                    |
| Total equity securities, available-for-sale                                          | \$ 54,609         | \$ 423                       | \$ 3,059                      | \$ 51,973     |                    |

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

(3) Represents the amount of OTTI losses in AOCI, which were not included in earnings. Amount excludes \$9 million of net unrealized gains on impaired available-for-sale securities relating to changes in the value of such securities subsequent to the impairment measurement date.

The amortized cost and fair value of fixed maturities by contractual maturities at June 30, 2016, are as follows:

|                                        | Available-for-Sale |              |
|----------------------------------------|--------------------|--------------|
|                                        | Amortized Cost     | Fair Value   |
|                                        | (in thousands)     |              |
| Due in one year or less                | \$ 308,390         | \$ 309,265   |
| Due after one year through five years  | 731,155            | 765,105      |
| Due after five years through ten years | 826,148            | 849,618      |
| Due after ten years                    | 2,593,491          | 2,845,278    |
| Asset-backed securities                | 196,034            | 199,504      |
| Commercial mortgage-backed securities  | 310,468            | 327,292      |
| Residential mortgage-backed securities | 85,329             | 91,000       |
| Total                                  | \$ 5,051,015       | \$ 5,387,062 |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Asset-backed, commercial mortgage-backed and residential mortgage-backed securities are shown separately in the table above, as they are not due at a single maturity date.

The following table depicts the sources of fixed maturity and equity security proceeds and related investment gains (losses), as well as losses on impairments of both fixed maturities and equity securities:

|                                                                              | Three Months Ended June 30, |           | Six Months Ended June 30, |            |
|------------------------------------------------------------------------------|-----------------------------|-----------|---------------------------|------------|
|                                                                              | 2016                        | 2015      | 2016                      | 2015       |
|                                                                              | (in thousands)              |           |                           |            |
| <b>Fixed maturities, available-for-sale</b>                                  |                             |           |                           |            |
| Proceeds from sales                                                          | \$ 220,349                  | \$ 46,614 | \$ 499,621                | \$ 134,934 |
| Proceeds from maturities/repayments                                          | 128,369                     | 150,345   | 298,236                   | 302,168    |
| Gross investment gains from sales, prepayments and maturities                | 92,953                      | 2,546     | 95,747                    | 5,063      |
| Gross investment losses from sales and maturities                            | (2,525)                     | (242)     | (4,093)                   | (633)      |
| <b>Equity securities, available-for-sale</b>                                 |                             |           |                           |            |
| Proceeds from sales                                                          | \$ 28,442                   | \$ 0      | \$ 28,452                 | \$ 0       |
| Gross investment gains from sales                                            | 216                         | 0         | 216                       | 0          |
| Gross investment losses from sales                                           | (1,934)                     | 0         | (1,934)                   | 0          |
| <b>Fixed maturity and equity security impairments</b>                        |                             |           |                           |            |
| Net writedowns for OTTI losses on fixed maturities recognized in earnings(1) | \$ (109)                    | \$ (372)  | \$ (16,259)               | \$ (384)   |
| Writedowns for impairments on equity securities                              | 0                           | (2)       | 0                         | (2)        |

(1) Excludes the portion of OTTI recorded in “Other comprehensive income (loss),” representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of the impairment.

As discussed in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, a portion of certain OTTI losses on fixed maturity securities is recognized in “Other comprehensive income (loss)” (“OCI”). For these securities, the net amount recognized in earnings (“credit loss impairments”) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in OCI. The following table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                                                                              | Three Months Ended<br>June 30, 2016 | Six Months Ended<br>June 30, 2016 |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------|
|                                                                                                                              | (in thousands)                      |                                   |
| Balance, beginning of period                                                                                                 | \$ 5,858                            | \$ 7,041                          |
| Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period | (229)                               | (1,136)                           |
| Credit loss impairments previously recognized on securities impaired to fair value during the period(1)                      | 670                                 | 0                                 |
| Credit loss impairments recognized in the current period on securities not previously impaired                               | 102                                 | 522                               |
| Additional credit loss impairments recognized in the current period on securities previously impaired                        | 6                                   | 6                                 |
| Increases due to the passage of time on previously recorded credit losses                                                    | 32                                  | 85                                |
| Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected         | (231)                               | (310)                             |
| Assets transferred to parent and affiliates                                                                                  | (658)                               | (658)                             |
| Balance, end of period                                                                                                       | \$ 5,550                            | \$ 5,550                          |

|                                                                                                                              | Three Months Ended<br>June 30, 2015 | Six Months Ended<br>June 30, 2015 |
|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------|
|                                                                                                                              | (in thousands)                      |                                   |
| Balance, beginning of period                                                                                                 | \$ 8,628                            | \$ 8,729                          |
| Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period | (69)                                | (133)                             |
| Credit loss impairments previously recognized on securities impaired to fair value during the period(1)                      | 0                                   | 0                                 |
| Credit loss impairments recognized in the current period on securities not previously impaired                               | 0                                   | 0                                 |
| Additional credit loss impairments recognized in the current period on securities previously impaired                        | 15                                  | 27                                |
| Increases due to the passage of time on previously recorded credit losses                                                    | 40                                  | 77                                |
| Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected         | (58)                                | (144)                             |
| Balance, end of period                                                                                                       | \$ 8,556                            | \$ 8,556                          |

(1) Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security's amortized cost.

**Trading Account Assets**

The following table sets forth the composition of “Trading account assets” as of the dates indicated:

|                              | June 30, 2016     |               | December 31, 2015 |               |
|------------------------------|-------------------|---------------|-------------------|---------------|
|                              | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
|                              | (in thousands)    |               |                   |               |
| Fixed maturities             | \$ 23,549         | \$ 20,151     | \$ 50,565         | \$ 46,364     |
| Equity securities            | 12,047            | 16,882        | 14,761            | 18,248        |
| Total trading account assets | \$ 35,596         | \$ 37,033     | \$ 65,326         | \$ 64,612     |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The net change in unrealized gains (losses) from trading account assets still held at period end, recorded within “Other income,” was less than \$(0.1) million and \$0.2 million for the three months ended June 30, 2016 and 2015, respectively, and \$2.2 million and \$0.9 million for the six months ended June 30, 2016 and 2015, respectively.

**Commercial Mortgage and Other Loans**

The Company’s commercial mortgage and other loans are comprised as follows, as of the dates indicated:

|                                                                                | June 30, 2016            |               | December 31, 2015        |               |
|--------------------------------------------------------------------------------|--------------------------|---------------|--------------------------|---------------|
|                                                                                | Amount<br>(in thousands) | % of<br>Total | Amount<br>(in thousands) | % of<br>Total |
| <b>Commercial mortgage and agricultural property loans by property type:</b>   |                          |               |                          |               |
| Retail                                                                         | \$ 236,774               | 23.1%         | \$ 440,767               | 26.7%         |
| Apartments/Multi-Family                                                        | 310,390                  | 30.3          | 445,379                  | 27.0          |
| Industrial                                                                     | 151,966                  | 14.8          | 254,884                  | 15.4          |
| Office                                                                         | 136,456                  | 13.3          | 226,332                  | 13.6          |
| Other                                                                          | 75,289                   | 7.4           | 92,581                   | 5.6           |
| Hospitality                                                                    | 48,925                   | 4.8           | 85,910                   | 5.2           |
| Total commercial mortgage loans                                                | 959,800                  | 93.7          | 1,545,853                | 93.5          |
| Agricultural property loans                                                    | 64,778                   | 6.3           | 106,623                  | 6.5           |
| Total commercial mortgage and agricultural property loans by property type     | 1,024,578                | 100.0%        | 1,652,476                | 100.0%        |
| Valuation allowance                                                            | (1,151)                  |               | (2,651)                  |               |
| Total net commercial mortgage and agricultural property loans by property type | 1,023,427                |               | 1,649,825                |               |
| <b>Other Loans</b>                                                             |                          |               |                          |               |
| Uncollateralized loans                                                         | 0                        |               | 8,410                    |               |
| Valuation allowance                                                            | 0                        |               | 0                        |               |
| Total other loans                                                              | 0                        |               | 8,410                    |               |
| Total commercial mortgage and other loans                                      | \$ 1,023,427             |               | \$ 1,658,235             |               |

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States (with the largest concentrations in California (22%), Texas (15%) and New Jersey (7%)) and include loans secured by properties in Australia and Europe at June 30, 2016.

Activity in the allowance for credit losses for all commercial mortgage and other loans, as of the dates indicated, is as follows:

|                                                | June 30, 2016                |                                |                        |          |
|------------------------------------------------|------------------------------|--------------------------------|------------------------|----------|
|                                                | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Uncollateralized Loans | Total    |
|                                                | (in thousands)               |                                |                        |          |
| Allowance for credit losses, beginning of year | \$ 2,587                     | \$ 64                          | \$ 0                   | \$ 2,651 |
| Addition to (release of) allowance for losses  | (1,481)                      | (19)                           | 0                      | (1,500)  |
| Charge-offs, net of recoveries                 | 0                            | 0                              | 0                      | 0        |
| Total ending balance                           | \$ 1,106                     | \$ 45                          | \$ 0                   | \$ 1,151 |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                | December 31, 2015            |                                |                        |          |
|------------------------------------------------|------------------------------|--------------------------------|------------------------|----------|
|                                                | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Uncollateralized Loans | Total    |
|                                                | (in thousands)               |                                |                        |          |
| Allowance for credit losses, beginning of year | \$ 4,071                     | \$ 83                          | \$ 0                   | \$ 4,154 |
| Addition to (release of) allowance for losses  | (1,484)                      | (19)                           | 0                      | (1,503)  |
| Charge-offs, net of recoveries                 | 0                            | 0                              | 0                      | 0        |
| Total ending balance                           | \$ 2,587                     | \$ 64                          | \$ 0                   | \$ 2,651 |

The following tables set forth the allowance for credit losses and the recorded investment in commercial mortgage and other loans as of the dates indicated:

|                                                                    | June 30, 2016                |                                |                        |                     |
|--------------------------------------------------------------------|------------------------------|--------------------------------|------------------------|---------------------|
|                                                                    | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Uncollateralized Loans | Total               |
|                                                                    | (in thousands)               |                                |                        |                     |
| Allowance for Credit Losses:                                       |                              |                                |                        |                     |
| Individually evaluated for impairment                              | \$ 0                         | \$ 0                           | \$ 0                   | \$ 0                |
| Collectively evaluated for impairment                              | 1,106                        | 45                             | 0                      | 1,151               |
| Loans acquired with deteriorated credit quality                    | 0                            | 0                              | 0                      | 0                   |
| Total ending balance                                               | <u>\$ 1,106</u>              | <u>\$ 45</u>                   | <u>\$ 0</u>            | <u>\$ 1,151</u>     |
| Recorded Investment(1):                                            |                              |                                |                        |                     |
| Gross of reserves: individually evaluated for impairment           | \$ 2,629                     | \$ 0                           | \$ 0                   | \$ 2,629            |
| Gross of reserves: collectively evaluated for impairment           | 957,171                      | 64,778                         | 0                      | 1,021,949           |
| Gross of reserves: loans acquired with deteriorated credit quality | 0                            | 0                              | 0                      | 0                   |
| Total ending balance, gross of reserves                            | <u>\$ 959,800</u>            | <u>\$ 64,778</u>               | <u>\$ 0</u>            | <u>\$ 1,024,578</u> |

(1) Recorded investment reflects the carrying value gross of related allowance.

|                                                                    | December 31, 2015            |                                |                        |                     |
|--------------------------------------------------------------------|------------------------------|--------------------------------|------------------------|---------------------|
|                                                                    | Commercial Mortgage<br>Loans | Agricultural Property<br>Loans | Uncollateralized Loans | Total               |
|                                                                    | (in thousands)               |                                |                        |                     |
| <b>Allowance for Credit Losses:</b>                                |                              |                                |                        |                     |
| Individually evaluated for impairment                              | \$ 0                         | \$ 0                           | \$ 0                   | \$ 0                |
| Collectively evaluated for impairment                              | 2,587                        | 64                             | 0                      | 2,651               |
| Loans acquired with deteriorated credit quality                    | 0                            | 0                              | 0                      | 0                   |
| Total ending balance                                               | <u>\$ 2,587</u>              | <u>\$ 64</u>                   | <u>\$ 0</u>            | <u>\$ 2,651</u>     |
| <b>Recorded Investment(1):</b>                                     |                              |                                |                        |                     |
| Gross of reserves: individually evaluated for impairment           | \$ 0                         | \$ 287                         | \$ 0                   | \$ 287              |
| Gross of reserves: collectively evaluated for impairment           | 1,545,853                    | 106,336                        | 8,410                  | 1,660,599           |
| Gross of reserves: loans acquired with deteriorated credit quality | 0                            | 0                              | 0                      | 0                   |
| Total ending balance, gross of reserves                            | <u>\$ 1,545,853</u>          | <u>\$ 106,623</u>              | <u>\$ 8,410</u>        | <u>\$ 1,660,886</u> |

(1) Recorded investment reflects the carrying value gross of related allowance.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

Impaired loans include those loans for which it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Impaired commercial mortgage and other loans identified in management's specific review of probable loan losses and the related allowance for losses, as of the dates indicated, are as follows:

| June 30, 2016                      |                        |                          |                                     |                                                 |                               |
|------------------------------------|------------------------|--------------------------|-------------------------------------|-------------------------------------------------|-------------------------------|
|                                    | Recorded Investment(1) | Unpaid Principal Balance | Related Allowance<br>(in thousands) | Average Recorded Investment Before Allowance(2) | Interest Income Recognized(3) |
| With no related allowance recorded | \$ 0                   | \$ 0                     | \$ 0                                | \$ 0                                            | \$ 0                          |
| With an allowance recorded         | 0                      | 0                        | 0                                   | 0                                               | 0                             |
| Total                              | \$ 0                   | \$ 0                     | \$ 0                                | \$ 0                                            | \$ 0                          |

(1) Recorded investment reflects the carrying value gross of related allowance.

(2) Average recorded investment represents the average of the beginning-of-period and all subsequent quarterly end-of-period balances.

(3) The interest income recognized is for the year-to-date income regardless of when the impairments occurred.

| December 31, 2015                  |                        |                          |                                     |                                                 |                               |
|------------------------------------|------------------------|--------------------------|-------------------------------------|-------------------------------------------------|-------------------------------|
|                                    | Recorded Investment(1) | Unpaid Principal Balance | Related Allowance<br>(in thousands) | Average Recorded Investment Before Allowance(2) | Interest Income Recognized(3) |
| With no related allowance recorded | \$ 0                   | \$ 0                     | \$ 0                                | \$ 0                                            | \$ 0                          |
| With an allowance recorded         | 0                      | 0                        | 0                                   | 12,700                                          | 769                           |
| Total                              | \$ 0                   | \$ 0                     | \$ 0                                | \$ 12,700                                       | \$ 769                        |

(1) Recorded investment reflects the carrying value gross of related allowance.

(2) Average recorded investment represents the average of the beginning-of-period and all subsequent quarterly end-of-period balances.

(3) The interest income recognized is for the year-to-date income regardless of when the impairments occurred.

The following tables set forth certain key credit quality indicators based upon the recorded investment gross of allowance for credit losses as of the dates indicated:

|                                                           | Debt Service Coverage Ratio - June 30, 2016 |               |                |              |
|-----------------------------------------------------------|---------------------------------------------|---------------|----------------|--------------|
|                                                           | Greater than 1.2X                           | 1.0X to <1.2X | Less than 1.0X | Total        |
|                                                           | (in thousands)                              |               |                |              |
| Loan-to-Value Ratio                                       |                                             |               |                |              |
| 0%-59.99%                                                 | \$ 696,210                                  | \$ 14,627     | \$ 0           | \$ 710,837   |
| 60%-69.99%                                                | 208,923                                     | 2,403         | 0              | 211,326      |
| 70%-79.99%                                                | 94,894                                      | 5,307         | 0              | 100,201      |
| Greater than 80%                                          | 0                                           | 2,214         | 0              | 2,214        |
| Total commercial mortgage and agricultural property loans | \$ 1,000,027                                | \$ 24,551     | \$ 0           | \$ 1,024,578 |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                           | Debt Service Coverage Ratio - December 31, 2015 |               |                |              |
|-----------------------------------------------------------|-------------------------------------------------|---------------|----------------|--------------|
|                                                           | Greater than 1.2X                               | 1.0X to <1.2X | Less than 1.0X | Total        |
|                                                           | (in thousands)                                  |               |                |              |
| Loan-to-Value Ratio                                       |                                                 |               |                |              |
| 0%-59.99%                                                 | \$ 1,004,751                                    | \$ 35,579     | \$ 6,762       | \$ 1,047,092 |
| 60%-69.99%                                                | 378,799                                         | 4,969         | 4,016          | 387,784      |
| 70%-79.99%                                                | 197,208                                         | 12,471        | 0              | 209,679      |
| Greater than 80%                                          | 0                                               | 2,938         | 4,983          | 7,921        |
| Total commercial mortgage and agricultural property loans | \$ 1,580,758                                    | \$ 55,957     | \$ 15,761      | \$ 1,652,476 |

The following tables provide an aging of past due commercial mortgage and other loans as of the dates indicated, based upon the recorded investment gross of allowance for credit losses, as well as the amount of commercial mortgage loans on nonaccrual status as of the dates indicated.

|                             | June 30, 2016  |                     |                     |                      |                                           |                   |
|-----------------------------|----------------|---------------------|---------------------|----------------------|-------------------------------------------|-------------------|
|                             | Current        | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Commercial Mortgage and Other Loans | NonAccrual Status |
|                             | (in thousands) |                     |                     |                      |                                           |                   |
| Commercial mortgage loans   | \$ 959,800     | \$ 0                | \$ 0                | \$ 0                 | \$ 959,800                                | \$ 0              |
| Agricultural property loans | 64,778         | 0                   | 0                   | 0                    | 64,778                                    | 0                 |
| Uncollateralized loans      | 0              | 0                   | 0                   | 0                    | 0                                         | 0                 |
| Total                       | \$ 1,024,578   | \$ 0                | \$ 0                | \$ 0                 | \$ 1,024,578                              | \$ 0              |

|                             | December 31, 2015 |                     |                     |                      |                                           |                   |
|-----------------------------|-------------------|---------------------|---------------------|----------------------|-------------------------------------------|-------------------|
|                             | Current           | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Commercial Mortgage and Other Loans | NonAccrual Status |
|                             | (in thousands)    |                     |                     |                      |                                           |                   |
| Commercial mortgage loans   | \$ 1,545,853      | \$ 0                | \$ 0                | \$ 0                 | \$ 1,545,853                              | \$ 0              |
| Agricultural property loans | 106,336           | 287                 | 0                   | 0                    | 106,623                                   | 0                 |
| Uncollateralized loans      | 8,410             | 0                   | 0                   | 0                    | 8,410                                     | 0                 |
| Total                       | \$ 1,660,599      | \$ 287              | \$ 0                | \$ 0                 | \$ 1,660,886                              | \$ 0              |

See Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for further discussion regarding nonaccrual status loans.

For the three and six months ended June 30, 2016 and 2015, there were no commercial mortgage and other loans acquired, other than those through direct origination, nor were there any commercial mortgage and other loans sold. For the three and six months ended June 30, 2016, the Company transferred \$631 million of commercial mortgage and other loans to related parties. See Note 1 for additional information.

The Company's commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. As of both June 30, 2016 and December 31, 2015, the Company had no significant commitments to borrowers that have been involved in a troubled debt restructuring. For the three and six months ended June 30, 2016 and 2015, there were no new troubled debt restructurings related to commercial mortgage and other loans and no payment defaults on commercial mortgage and other loans that were modified as a troubled debt restructuring within the twelve months preceding. For additional information relating to the accounting for troubled debt restructurings, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

As of both June 30, 2016 and December 31, 2015, the Company did not have any foreclosed residential real estate property.

***Net Investment Income***

Net investment income for the three and six months ended June 30, 2016 and 2015, was from the following sources:

|                                             | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|---------------------------------------------|-----------------------------|------------|---------------------------|------------|
|                                             | 2016                        | 2015       | 2016                      | 2015       |
|                                             | (in thousands)              |            |                           |            |
| Fixed maturities, available-for-sale        | \$ 54,043                   | \$ 66,546  | \$ 129,753                | \$ 130,484 |
| Equity securities, available-for-sale       | 1                           | 0          | 1                         | 1          |
| Trading account assets                      | 445                         | 735        | 1,204                     | 1,247      |
| Commercial mortgage and other loans         | 14,804                      | 21,639     | 34,577                    | 42,536     |
| Policy loans                                | 15,281                      | 15,371     | 30,779                    | 30,486     |
| Short-term investments and cash equivalents | 462                         | 184        | 1,199                     | 459        |
| Other long-term investments                 | (674)                       | 2,684      | (1,554)                   | 10,754     |
| Gross investment income                     | 84,362                      | 107,159    | 195,959                   | 215,967    |
| Less: investment expenses                   | (5,743)                     | (5,673)    | (11,888)                  | (11,061)   |
| Net investment income                       | \$ 78,619                   | \$ 101,486 | \$ 184,071                | \$ 204,906 |

***Realized Investment Gains (Losses), Net***

Realized investment gains (losses), net, for the three and six months ended June 30, 2016 and 2015, were from the following sources:

|                                         | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|-----------------------------------------|-----------------------------|--------------|---------------------------|--------------|
|                                         | 2016                        | 2015         | 2016                      | 2015         |
|                                         | (in thousands)              |              |                           |              |
| Fixed maturities                        | \$ 90,319                   | \$ 1,932     | \$ 75,395                 | \$ 4,046     |
| Equity securities                       | (1,718)                     | (2)          | (1,718)                   | (2)          |
| Commercial mortgage and other loans     | 29,429                      | 128          | 29,991                    | 279          |
| Joint ventures and limited partnerships | 81                          | 128          | (67)                      | 165          |
| Derivatives                             | 742,347                     | (172,883)    | 811,994                   | (116,162)    |
| Other                                   | 4                           | 41           | 18                        | 43           |
| Realized investment gains (losses), net | \$ 860,462                  | \$ (170,656) | \$ 915,613                | \$ (111,631) |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**
***Accumulated Other Comprehensive Income (Loss)***

The balance of and changes in each component of “Accumulated other comprehensive income (loss)” for the six months ended June 30, 2016 and 2015, are as follows:

|                                        | <b>Accumulated Other Comprehensive Income (Loss)</b>       |                                                            |                                                                        |
|----------------------------------------|------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------------------|
|                                        | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustment</b> | <b>Net Unrealized<br/>Investment Gains<br/>(Losses)(1)</b> | <b>Total Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> |
|                                        | <b>(in thousands)</b>                                      |                                                            |                                                                        |
| Balance, December 31, 2015             | \$ (397)                                                   | \$ 65,202                                                  | \$ 64,805                                                              |
| Change in OCI before reclassifications | 121                                                        | 344,649                                                    | 344,770                                                                |
| Amounts reclassified from AOCI         | 0                                                          | (73,677)                                                   | (73,677)                                                               |
| Income tax benefit (expense)           | (42)                                                       | (94,840)                                                   | (94,882)                                                               |
| Balance, June 30, 2016                 | <u>\$ (318)</u>                                            | <u>\$ 241,334</u>                                          | <u>\$ 241,016</u>                                                      |

|                                        | <b>Accumulated Other Comprehensive Income (Loss)</b>       |                                                            |                                                                        |
|----------------------------------------|------------------------------------------------------------|------------------------------------------------------------|------------------------------------------------------------------------|
|                                        | <b>Foreign<br/>Currency<br/>Translation<br/>Adjustment</b> | <b>Net Unrealized<br/>Investment Gains<br/>(Losses)(1)</b> | <b>Total Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> |
|                                        | <b>(in thousands)</b>                                      |                                                            |                                                                        |
| Balance, December 31, 2014             | \$ (67)                                                    | \$ 178,758                                                 | \$ 178,691                                                             |
| Change in OCI before reclassifications | (338)                                                      | (123,909)                                                  | (124,247)                                                              |
| Amounts reclassified from AOCI         | 0                                                          | (4,044)                                                    | (4,044)                                                                |
| Income tax benefit (expense)           | 118                                                        | 44,582                                                     | 44,700                                                                 |
| Balance, June 30, 2015                 | <u>\$ (287)</u>                                            | <u>\$ 95,387</u>                                           | <u>\$ 95,100</u>                                                       |

(1) Includes cash flow hedges of \$38 million and \$48 million as of June 30, 2016 and December 31, 2015, respectively, and \$24 million and \$12 million as of June 30, 2015 and December 31, 2014, respectively.

***Reclassifications out of Accumulated Other Comprehensive Income (Loss)***

|                                                                              | <b>Three Months Ended<br/>June 30, 2016</b> | <b>Six Months Ended<br/>June 30, 2016</b> |
|------------------------------------------------------------------------------|---------------------------------------------|-------------------------------------------|
|                                                                              | <b>(in thousands)</b>                       |                                           |
| <u>Amounts reclassified from AOCI (1)(2):</u>                                |                                             |                                           |
| Net unrealized investment gains (losses):                                    |                                             |                                           |
| Cash flow hedges - Currency/Interest rate(3)                                 | \$ 3,599                                    | \$ 2,772                                  |
| Net unrealized investment gains (losses) on available-for-sale securities(4) | 85,002                                      | 70,905                                    |
| Total net unrealized investment gains (losses)                               | <u>88,601</u>                               | <u>73,677</u>                             |
| Total reclassifications for the period                                       | <u>\$ 88,601</u>                            | <u>\$ 73,677</u>                          |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                              | Three Months Ended<br>June 30, 2015 | Six Months Ended<br>June 30, 2015 |
|------------------------------------------------------------------------------|-------------------------------------|-----------------------------------|
|                                                                              | (in thousands)                      |                                   |
| <u>Amounts reclassified from AOCL (1)(2):</u>                                |                                     |                                   |
| Net unrealized investment gains (losses):                                    |                                     |                                   |
| Cash flow hedges - Currency/Interest rate(3)                                 | \$ (523)                            | \$ 1,278                          |
| Net unrealized investment gains (losses) on available-for-sale securities(4) | 2,453                               | 2,766                             |
| Total net unrealized investment gains (losses)                               | 1,930                               | 4,044                             |
| Total reclassifications for the period                                       | \$ 1,930                            | \$ 4,044                          |

(1) All amounts are shown before tax.

(2) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.

(3) See Note 5 for additional information on cash flow hedges.

(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition costs and other costs, future policy benefits and policyholders' account balances.

**Net Unrealized Investment Gains (Losses)**

Net unrealized investment gains and losses on securities classified as available-for-sale and certain other long-term investments and other assets are included in the Company's Unaudited Interim Consolidated Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from OCI those items that are included as part of "Net income" for a period that had been part of OCI in earlier periods. The amounts for the periods indicated below, split between amounts related to fixed maturity securities on which an OTTI loss has been recognized, and all other net unrealized investment gains and losses, are as follows:

**Net Unrealized Investment Gains and Losses on Fixed Maturity Securities on which an OTTI loss has been recognized**

|                                                                                                                  | Net Unrealized<br>Gains (Losses)<br>on Investments | Deferred Policy<br>Acquisition Costs<br>and<br>Other Costs | Future Policy<br>Benefits and<br>Policyholders'<br>Account<br>Balances(2) | Deferred<br>Income Tax<br>(Liability)<br>Benefit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>Related To Net<br>Unrealized<br>Investment<br>Gains (Losses) |
|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                  | (in thousands)                                     |                                                            |                                                                           |                                                  |                                                                                                                        |
| Balance, December 31, 2015                                                                                       | \$ 5,196                                           | \$ (1,350)                                                 | \$ 1,114                                                                  | \$ (1,767)                                       | \$ 3,193                                                                                                               |
| Net investment gains (losses) on investments arising during the period                                           | 1,016                                              | 0                                                          | 0                                                                         | (356)                                            | 660                                                                                                                    |
| Reclassification adjustment for (gains) losses included in net income                                            | (1,316)                                            | 0                                                          | 0                                                                         | 461                                              | (855)                                                                                                                  |
| Reclassification adjustment for OTTI losses excluded from net income(1)                                          | (512)                                              | 0                                                          | 0                                                                         | 179                                              | (333)                                                                                                                  |
| Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs          | 0                                                  | (64)                                                       | 0                                                                         | 22                                               | (42)                                                                                                                   |
| Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances | 0                                                  | 0                                                          | 50                                                                        | (18)                                             | 32                                                                                                                     |
| Balance, June 30, 2016                                                                                           | <b>\$ 4,384</b>                                    | <b>\$ (1,414)</b>                                          | <b>\$ 1,164</b>                                                           | <b>\$ (1,479)</b>                                | <b>\$ 2,655</b>                                                                                                        |

(1) Represents "transfers in" related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

(2) Balances are net of reinsurance.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**
*All Other Net Unrealized Investment Gains and Losses in AOCI*

|                                                                                                                  | Net Unrealized<br>Gains (Losses)<br>on Investments(2) | Deferred Policy<br>Acquisition Costs<br>and<br>Other Costs | Future Policy<br>Benefits and<br>Policyholders'<br>Account<br>Balances(3) | Deferred<br>Income Tax<br>(Liability)<br>Benefit | Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>Related To Net<br>Unrealized<br>Investment<br>Gains (Losses) |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                  | (in thousands)                                        |                                                            |                                                                           |                                                  |                                                                                                                        |
| Balance, December 31, 2015                                                                                       | \$ 111,837                                            | \$ (19,252)                                                | \$ 2,647                                                                  | \$ (33,223)                                      | \$ 62,009                                                                                                              |
| Net investment gains (losses) on investments arising during the period                                           | 341,126                                               | 0                                                          | 0                                                                         | (119,393)                                        | 221,733                                                                                                                |
| Reclassification adjustment for (gains) losses included in net income                                            | (72,361)                                              | 0                                                          | 0                                                                         | 25,326                                           | (47,035)                                                                                                               |
| Reclassification adjustment for OTTI losses excluded from net income(1)                                          | 512                                                   | 0                                                          | 0                                                                         | (179)                                            | 333                                                                                                                    |
| Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and other costs          | 0                                                     | (68,802)                                                   | 0                                                                         | 24,081                                           | (44,721)                                                                                                               |
| Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances | 0                                                     | 0                                                          | 71,323                                                                    | (24,963)                                         | 46,360                                                                                                                 |
| Balance, June 30, 2016                                                                                           | <u>\$ 381,114</u>                                     | <u>\$ (88,054)</u>                                         | <u>\$ 73,970</u>                                                          | <u>\$ (128,351)</u>                              | <u>\$ 238,679</u>                                                                                                      |

(1) Represents "transfers out" related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

(2) Includes cash flow hedges. See Note 5 for information on cash flow hedges.

(3) Balances are net of reinsurance.

***Net Unrealized Gains (Losses) on Investments by Asset Class***

The table below presents net unrealized gains (losses) on investments by asset class as of the dates indicated:

|                                                                     | June 30, 2016     | December 31, 2015 |
|---------------------------------------------------------------------|-------------------|-------------------|
|                                                                     | (in thousands)    |                   |
| Fixed maturity securities on which an OTTI loss has been recognized | \$ 4,384          | \$ 5,196          |
| Fixed maturity securities, available-for-sale - all other           | 331,663           | 59,930            |
| Equity securities, available-for-sale                               | 593               | (2,636)           |
| Derivatives designated as cash flow hedges(1)                       | 38,143            | 48,271            |
| Other investments                                                   | 10,715            | 6,272             |
| Net unrealized gains (losses) on investments                        | <u>\$ 385,498</u> | <u>\$ 117,033</u> |

(1) See Note 5 for more information on cash flow hedges.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**
***Duration of Gross Unrealized Loss Positions for Fixed Maturities and Equity Securities***

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time that individual fixed maturity securities and equity securities have been in a continuous unrealized loss position, as of the dates indicated:

|                                                                                      | June 30, 2016           |                         |                       |                         |            |                         |
|--------------------------------------------------------------------------------------|-------------------------|-------------------------|-----------------------|-------------------------|------------|-------------------------|
|                                                                                      | Less than twelve months |                         | Twelve months or more |                         | Total      |                         |
|                                                                                      | Fair Value              | Gross Unrealized Losses | Fair Value            | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
|                                                                                      | (in thousands)          |                         |                       |                         |            |                         |
| <b>Fixed maturities, available-for-sale</b>                                          |                         |                         |                       |                         |            |                         |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0                    | \$ 0                    | \$ 0                  | \$ 0                    | \$ 0       | \$ 0                    |
| Obligations of U.S. states and their political subdivisions                          | 0                       | 0                       | 0                     | 0                       | 0          | 0                       |
| Foreign government bonds                                                             | 2,788                   | 4                       | 3,454                 | 180                     | 6,242      | 184                     |
| Public utilities                                                                     | 1,907                   | 31                      | 33,821                | 2,771                   | 35,728     | 2,802                   |
| Redeemable preferred stock                                                           | 670                     | 44                      | 0                     | 156                     | 670        | 200                     |
| All other U.S. public corporate securities                                           | 36,685                  | 617                     | 121,550               | 7,454                   | 158,235    | 8,071                   |
| All other U.S. private corporate securities                                          | 67,986                  | 3,283                   | 26,786                | 1,190                   | 94,772     | 4,473                   |
| All other foreign public corporate securities                                        | 782                     | 45                      | 8,574                 | 1,568                   | 9,356      | 1,613                   |
| All other foreign private corporate securities                                       | 123,488                 | 5,381                   | 107,454               | 12,694                  | 230,942    | 18,075                  |
| Asset-backed securities                                                              | 79,598                  | 893                     | 46,920                | 492                     | 126,518    | 1,385                   |
| Commercial mortgage-backed securities                                                | 0                       | 0                       | 3,524                 | 37                      | 3,524      | 37                      |
| Residential mortgage-backed securities                                               | 989                     | 21                      | 1,285                 | 9                       | 2,274      | 30                      |
| Total                                                                                | \$ 314,893              | \$ 10,319               | \$ 353,368            | \$ 26,551               | \$ 668,261 | \$ 36,870               |
| <b>Equity securities, available-for-sale</b>                                         | \$ 2,993                | \$ 73                   | \$ 2,806              | \$ 246                  | \$ 5,799   | \$ 319                  |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                                      |                  | December 31, 2015       |                 |                         |                  |                         |  |
|--------------------------------------------------------------------------------------|------------------|-------------------------|-----------------|-------------------------|------------------|-------------------------|--|
|                                                                                      |                  | Less than twelve months |                 | Twelve months or more   |                  | Total                   |  |
|                                                                                      | Fair Value       | Gross Unrealized Losses | Fair Value      | Gross Unrealized Losses | Fair Value       | Gross Unrealized Losses |  |
| (in thousands)                                                                       |                  |                         |                 |                         |                  |                         |  |
| <b>Fixed maturities, available-for-sale</b>                                          |                  |                         |                 |                         |                  |                         |  |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 5,985         | \$ 228                  | \$ 0            | \$ 0                    | \$ 5,985         | \$ 228                  |  |
| Obligations of U.S. states and their political subdivisions                          | 77,756           | 1,958                   | 0               | 0                       | 77,756           | 1,958                   |  |
| Foreign government bonds                                                             | 44,854           | 1,940                   | 1,813           | 851                     | 46,667           | 2,791                   |  |
| Public utilities                                                                     | 323,086          | 13,151                  | 26,094          | 5,251                   | 349,180          | 18,402                  |  |
| Redeemable preferred stock                                                           | 0                | 145                     | 0               | 0                       | 0                | 145                     |  |
| All other U.S. public corporate securities                                           | 802,158          | 49,343                  | 61,110          | 11,799                  | 863,268          | 61,142                  |  |
| All other U.S. private corporate securities                                          | 323,218          | 12,476                  | 17,103          | 1,487                   | 340,321          | 13,963                  |  |
| All other foreign public corporate securities                                        | 121,662          | 5,098                   | 6,079           | 1,410                   | 127,741          | 6,508                   |  |
| All other foreign private corporate securities                                       | 284,191          | 14,089                  | 154,791         | 28,439                  | 438,982          | 42,528                  |  |
| Asset-backed securities                                                              | 249,084          | 1,565                   | 93,675          | 1,085                   | 342,759          | 2,650                   |  |
| Commercial mortgage-backed securities                                                | 129,765          | 2,350                   | 4,221           | 79                      | 133,986          | 2,429                   |  |
| Residential mortgage-backed securities                                               | 18,435           | 59                      | 1,519           | 6                       | 19,954           | 65                      |  |
| Total                                                                                | \$ 2,380,194     | \$ 102,402              | \$ 366,405      | \$ 50,407               | \$ 2,746,599     | \$ 152,809              |  |
| <b>Equity securities, available-for-sale</b>                                         | <b>\$ 35,869</b> | <b>\$ 2,339</b>         | <b>\$ 9,281</b> | <b>\$ 720</b>           | <b>\$ 45,150</b> | <b>\$ 3,059</b>         |  |

The gross unrealized losses on fixed maturity securities as of June 30, 2016 and December 31, 2015 were composed of \$26.7 million and \$133.6 million, respectively, related to high or highest quality securities based on the National Association of Insurance Commissioners ("NAIC") or equivalent rating and \$10.2 million and \$19.2 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of June 30, 2016, the \$26.6 million of gross unrealized losses of twelve months or more were concentrated in the energy, utility, consumer non-cyclical and communications sectors of the Company's corporate securities. As of December 31, 2015, the \$50.4 million of gross unrealized losses of twelve months or more were concentrated in the energy, consumer non-cyclical, utility and finance sectors of the Company's corporate securities. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, the Company concluded that an adjustment to earnings for OTTI for these securities was not warranted at June 30, 2016 or December 31, 2015. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to general credit spread widening and foreign currency exchange rate movements. As of June 30, 2016, the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

As of both June 30, 2016 and December 31, 2015, none of the gross unrealized losses related to equity securities represented declines in value of greater than 20%. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, the Company concluded that an adjustment for OTTI for these equity securities was not warranted at June 30, 2016 or December 31, 2015.

**Securities Lending and Repurchase Agreements**

In the normal course of business, the Company sells securities under agreements to repurchase and enters into securities lending transactions. As of June 30, 2016, the Company had \$157 million of securities lending transactions recorded as "Cash collateral for loaned securities," comprised of \$152 million in corporate securities and \$5 million in foreign government bonds. Of the \$157 million of securities lending transactions, \$156 million have a remaining contractual maturity that is overnight and continuous, while the other \$1 million had a remaining contractual maturity of up to thirty days. As of December 31, 2015, the Company had \$40 million of securities lending transactions recorded as "Cash collateral for loaned securities," comprised of \$33 million in corporate securities and \$7 million in foreign government bonds. Of the \$40 million of securities lending transactions, \$38 million

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

had a remaining contractual maturity that was overnight and continuous, while the other \$2 million had a remaining contractual maturity of up to thirty days. As of both June 30, 2016 and December 31, 2015, the Company had no repurchase transactions.

**4. FAIR VALUE OF ASSETS AND LIABILITIES**

**Fair Value Measurement** - Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. The Company's Level 1 assets and liabilities primarily include certain cash equivalents, short-term investments and equity securities that trade on an active exchange market.

Level 2 – Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. The Company's Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-backed securities, etc.), certain equity securities (mutual funds, which do not trade in active markets because they are not publicly available), certain short-term investments and certain cash equivalents, and certain over-the-counter ("OTC") derivatives.

Level 3 – Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value. The Company's Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured OTC derivative contracts, certain real estate funds for which the Company is the general partner and embedded derivatives resulting from reinsurance or certain products with guaranteed benefits.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**Assets and Liabilities by Hierarchy Level** – The tables below present the balances of assets and liabilities reported at fair value on a recurring basis, as of the dates indicated.

|                                                                                      | June 30, 2016  |        |         |             |         |           |            |          |    |             |
|--------------------------------------------------------------------------------------|----------------|--------|---------|-------------|---------|-----------|------------|----------|----|-------------|
|                                                                                      | Level 1        |        | Level 2 |             | Level 3 |           | Netting(1) | Total    |    |             |
|                                                                                      | (in thousands) |        |         |             |         |           |            |          |    |             |
| Fixed maturities, available-for-sale:                                                |                |        |         |             |         |           |            |          |    |             |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$             | 0      | \$      | 106,442     | \$      | 0         | \$         | 0        | \$ | 106,442     |
| Obligations of U.S. states and their political subdivisions                          |                | 0      |         | 595,899     |         | 0         |            | 0        |    | 595,899     |
| Foreign government bonds                                                             |                | 0      |         | 88,954      |         | 0         |            | 0        |    | 88,954      |
| U.S. corporate public securities                                                     |                | 0      |         | 2,274,101   |         | 55,003    |            | 0        |    | 2,329,104   |
| U.S. corporate private securities                                                    |                | 0      |         | 826,245     |         | 32,900    |            | 0        |    | 859,145     |
| Foreign corporate public securities                                                  |                | 0      |         | 196,382     |         | 0         |            | 0        |    | 196,382     |
| Foreign corporate private securities                                                 |                | 0      |         | 582,971     |         | 10,369    |            | 0        |    | 593,340     |
| Asset-backed securities                                                              |                | 0      |         | 158,677     |         | 40,827    |            | 0        |    | 199,504     |
| Commercial mortgage-backed securities                                                |                | 0      |         | 327,292     |         | 0         |            | 0        |    | 327,292     |
| Residential mortgage-backed securities                                               |                | 0      |         | 91,000      |         | 0         |            | 0        |    | 91,000      |
| Sub-total                                                                            |                | 0      |         | 5,247,963   |         | 139,099   |            | 0        |    | 5,387,062   |
| Trading account assets:                                                              |                |        |         |             |         |           |            |          |    |             |
| Corporate securities                                                                 |                | 0      |         | 19,850      |         | 0         |            | 0        |    | 19,850      |
| Asset-backed securities                                                              |                | 0      |         | 301         |         | 0         |            | 0        |    | 301         |
| Equity securities                                                                    |                | 0      |         | 0           |         | 16,882    |            | 0        |    | 16,882      |
| Sub-total                                                                            |                | 0      |         | 20,151      |         | 16,882    |            | 0        |    | 37,033      |
| Equity securities, available-for-sale                                                |                | 50     |         | 22,760      |         | 191       |            | 0        |    | 23,001      |
| Short-term investments                                                               |                | 24,658 |         | 12,554      |         | 0         |            | 0        |    | 37,212      |
| Cash equivalents                                                                     |                | 12,104 |         | 182,156     |         | 0         |            | 0        |    | 194,260     |
| Other long-term investments                                                          |                | 0      |         | 86,623      |         | 2,479     |            | (10,295) |    | 78,807      |
| Reinsurance recoverables                                                             |                | 0      |         | 0           |         | 9,141,712 |            | 0        |    | 9,141,712   |
| Receivables from parent and affiliates                                               |                | 0      |         | 147,874     |         | 556       |            | 0        |    | 148,430     |
| Sub-total excluding separate account assets                                          |                | 36,812 |         | 5,720,081   |         | 9,300,919 |            | (10,295) |    | 15,047,517  |
| Separate account assets(2)                                                           |                | 0      |         | 112,476,330 |         | 0         |            | 0        |    | 112,476,330 |
| Total assets                                                                         | \$             | 36,812 | \$      | 118,196,411 | \$      | 9,300,919 | \$         | (10,295) | \$ | 127,523,847 |
| Future policy benefits(3)                                                            | \$             | 0      | \$      | 0           | \$      | 8,657,255 | \$         | 0        | \$ | 8,657,255   |
| Payables to parent and affiliates                                                    |                | 0      |         | 10,405      |         | 0         |            | (10,405) |    | 0           |
| Total liabilities                                                                    | \$             | 0      | \$      | 10,405      | \$      | 8,657,255 | \$         | (10,405) | \$ | 8,657,255   |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| December 31, 2015                                                                    |           |                |                           |              |                |
|--------------------------------------------------------------------------------------|-----------|----------------|---------------------------|--------------|----------------|
|                                                                                      | Level 1   | Level 2        | Level 3<br>(in thousands) | Netting(1)   | Total          |
| <b>Fixed maturities, available-for-sale:</b>                                         |           |                |                           |              |                |
| U.S. Treasury securities and obligations of U.S. government authorities and agencies | \$ 0      | \$ 94,049      | \$ 0                      | \$ 0         | \$ 94,049      |
| Obligations of U.S. states and their political subdivisions                          | 0         | 624,769        | 0                         | 0            | 624,769        |
| Foreign government bonds                                                             | 0         | 70,410         | 0                         | 0            | 70,410         |
| U.S. corporate public securities                                                     | 0         | 2,635,551      | 55,003                    | 0            | 2,690,554      |
| U.S. corporate private securities                                                    | 0         | 1,322,213      | 22,716                    | 0            | 1,344,929      |
| Foreign corporate public securities                                                  | 0         | 275,349        | 0                         | 0            | 275,349        |
| Foreign corporate private securities                                                 | 0         | 760,869        | 17,773                    | 0            | 778,642        |
| Asset-backed securities                                                              | 0         | 261,784        | 173,347                   | 0            | 435,131        |
| Commercial mortgage-backed securities                                                | 0         | 404,345        | 0                         | 0            | 404,345        |
| Residential mortgage-backed securities                                               | 0         | 122,754        | 0                         | 0            | 122,754        |
| Sub-total                                                                            | 0         | 6,572,093      | 268,839                   | 0            | 6,840,932      |
| <b>Trading account assets:</b>                                                       |           |                |                           |              |                |
| Corporate securities                                                                 | 0         | 44,374         | 0                         | 0            | 44,374         |
| Asset-backed securities                                                              | 0         | 1,990          | 0                         | 0            | 1,990          |
| Equity securities                                                                    | 0         | 0              | 18,248                    | 0            | 18,248         |
| Sub-total                                                                            | 0         | 46,364         | 18,248                    | 0            | 64,612         |
| Equity securities, available-for-sale                                                | 39        | 51,769         | 165                       | 0            | 51,973         |
| Short-term investments                                                               | 18,713    | 36,093         | 0                         | 0            | 54,806         |
| Cash equivalents                                                                     | 50,998    | 143,927        | 0                         | 0            | 194,925        |
| Other long-term investments(4)                                                       | 0         | 297,394        | 5,704                     | (230,554)    | 72,544         |
| Reinsurance recoverables                                                             | 0         | 0              | 4,940,011                 | 0            | 4,940,011      |
| Receivables from parent and affiliates                                               | 0         | 157,625        | 5,000                     | 0            | 162,625        |
| Sub-total excluding separate account assets                                          | 69,750    | 7,305,265      | 5,237,967                 | (230,554)    | 12,382,428     |
| Separate account assets(2)(4)                                                        | 0         | 108,967,162    | 0                         | 0            | 108,967,162    |
| Total assets                                                                         | \$ 69,750 | \$ 116,272,427 | \$ 5,237,967              | \$ (230,554) | \$ 121,349,590 |
| Future policy benefits(3)                                                            | \$ 0      | \$ 0           | \$ 5,205,434              | \$ 0         | \$ 5,205,434   |
| Payables to parent and affiliates                                                    | 0         | 32,849         | 0                         | (32,849)     | 0              |
| Total liabilities                                                                    | \$ 0      | \$ 32,849      | \$ 5,205,434              | \$ (32,849)  | \$ 5,205,434   |

(1) "Netting" amounts represent cash collateral of \$(0.1) million and \$198 million as of June 30, 2016 and December 31, 2015, respectively, and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting arrangements.

(2) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Consolidated Statements of Financial Position.

(3) As of June 30, 2016, the net embedded derivative liability position of \$8,657 million includes \$816 million of embedded derivatives in an asset position and \$9,473 million of embedded derivatives in a liability position. As of December 31, 2015, the net embedded derivative liability position of \$5,205 million includes \$655 million of embedded derivatives in an asset position and \$5,860 million of embedded derivatives in a liability position.

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

The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below.

**Fixed Maturity Securities** – The fair values of the Company's public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices for each security are generally sourced from multiple pricing vendors, and a

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. The pricing hierarchy is updated for new financial products and recent pricing experience with various vendors. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. Typical inputs used by these pricing services include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flow, prepayment speeds, and default rates. If the pricing information received from third-party pricing services is deemed not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service or classify the securities as Level 3. If the pricing service updates the price to be more consistent with the presented market observations, the security remains within Level 2.

Internally-developed valuations or indicative broker quotes are also used to determine fair value in circumstances where vendor pricing is not available, or where the Company ultimately concludes that pricing information received from independent pricing services is not reflective of market activity. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information with an internally-developed valuation. As of June 30, 2016 and December 31, 2015, overrides on a net basis were not material. Pricing service overrides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

The Company conducts several specific price monitoring activities. Daily analyses identify price changes over predetermined thresholds defined at the financial instrument level. Various pricing integrity reports are reviewed on a daily and monthly basis to determine if pricing is reflective of market activity or if it would warrant any adjustments. Other procedures performed include, but are not limited to, reviews of third-party pricing services methodologies, reviews of pricing trends, and back testing.

The fair value of private fixed maturities, which are comprised of investments in private placement securities, originated by internal private asset managers, are primarily determined using discounted cash flow models. These models primarily use observable inputs that include Treasury or similar base rates plus estimated credit spreads to value each security. The credit spreads are obtained through a survey of private market intermediaries who are active in both primary and secondary transactions, and consider, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Since most private placements are valued using standard market observable inputs and inputs derived from, or corroborated by, market observable data including observed prices and spreads for similar publicly-traded or privately-traded issues, they have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset. To the extent management determines that such unobservable inputs are significant to the price of a security, a Level 3 classification is made.

**Trading Account Assets** – Trading account assets consist primarily of corporate and equity securities, asset-backed securities and perpetual preferred stock whose fair values are determined consistent with similar instruments described above under “Fixed Maturity Securities” and below under “Equity Securities”.

**Equity Securities** – Equity securities consist principally of investments in common and preferred stock of publicly-traded companies, perpetual preferred stock, privately-traded securities, as well as mutual fund shares. The fair values of most publicly-traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using discounted cash flow, earnings multiple and other valuation models that require a substantial level of judgment around inputs and therefore are classified within Level 3. The fair values of mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy. The fair values of perpetual preferred stock are based on inputs obtained from independent pricing services that are primarily based on indicative broker quotes. As a result, the fair values of perpetual preferred stock are classified as Level 3.

**Derivative Instruments** – Derivatives are recorded at fair value either as assets, within “Other long-term investments”, or as liabilities, within “Payables to parent and affiliates”, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, credit spreads, market volatility, expected returns, non-performance risk (“NPR”), liquidity and other factors. For derivative positions included within Level 3 of the fair value hierarchy, liquidity valuation adjustments are made to reflect the cost of exiting significant risk positions and consider the bid-ask spread, maturity, complexity, and other specific attributes of the underlying derivative position.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The majority of the Company's derivative positions are traded in the OTC derivative market and are classified within Level 2 in the fair value hierarchy. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The Company's policy is to use mid-market pricing in determining its best estimate of fair value. The fair values of most OTC derivatives, including interest rate, cross-currency swaps, currency forward contracts and single name credit default swaps are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black Scholes option pricing models. These models' key inputs include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yields, NPR, volatility and other factors.

The Company's cleared interest rate swaps and credit derivatives linked to an index are valued using models that utilize actively quoted or observable market inputs, including Overnight Indexed Swap discount rates, obtained from external market data providers, third-party pricing vendors and/or recent trading activity. These derivatives are classified as Level 2 in the fair value hierarchy.

To reflect the market's perception of its own and the counterparty's NPR, the Company incorporates additional spreads over London Inter-Bank Offered Rate ("LIBOR") into the discount rate used in determining the fair value of OTC derivative assets and liabilities that are not otherwise collateralized.

Derivatives classified as Level 3 include structured products. These derivatives are valued based upon models such as Monte Carlo simulation models and other techniques that utilize significant unobservable inputs. Level 3 methodologies are validated through periodic comparison of the Company's fair values to external broker-dealer values.

As discussed in Note 2, the Company adopted ASU 2015-07, effective January 1, 2016, which resulted in the exclusion of certain "Other long-term investments" from the fair value hierarchy. The guidance was required to be applied retrospectively, and therefore, prior period amounts have been revised to conform to the current period presentation. At both June 30, 2016 and December 31, 2015, the fair values of these investments, which include certain hedge funds, private equity funds and other funds were \$1 million, which had been previously classified in Level 3 at December 31, 2015.

**Cash Equivalents and Short-Term Investments** – Cash equivalents and short-term investments include money market instruments, and other highly liquid debt instruments. Certain money market instruments are valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The remaining instruments in this category are generally fair valued based on market observable inputs and these investments have primarily been classified within Level 2.

**Separate Account Assets** – Separate account assets include fixed maturity securities, treasuries, equity securities and mutual funds for which values are determined consistent with similar instruments described above under "Fixed Maturity Securities" and "Equity Securities".

As discussed in Note 2, the Company adopted ASU 2015-07, effective January 1, 2016, which resulted in the exclusion of certain separate account investments from the fair value hierarchy. The guidance was required to be applied retrospectively, and therefore, prior period amounts have been revised to conform to the current period presentation. At June 30, 2016 and December 31, 2015, the fair values of separate account assets excluded from the fair value hierarchy, which include investments in real estate and other invested assets, were \$478 million and \$383 million, respectively, which had been previously classified in Level 3 at December 31, 2015.

**Receivables from Parent and Affiliates** – Receivables from parent and affiliates carried at fair value include affiliated bonds within the Company's legal entity whose fair values are determined consistent with similar securities described above under "Fixed Maturity Securities" managed by affiliated asset managers.

**Reinsurance Recoverables** – Reinsurance recoverables carried at fair value include the reinsurance of the Company's living benefit guarantees on certain variable annuity contracts. These guarantees are accounted for as embedded derivatives and are recorded in "Reinsurance Recoverables" or "Other Liabilities" when fair value is in an asset or liability position, respectively. The methods and assumptions used to estimate the fair value are consistent with those described below in "Future Policy Benefits". The reinsurance agreements covering these guarantees are derivatives with fair value determined in the same manner as the living benefit guarantee.

The Company also has an agreement with Universal Prudential Arizona Reinsurance Company ("UPARC"), an affiliated captive reinsurance company, to reinsure risks associated with the no-lapse guarantee provision available on a portion of certain universal life products (see Note 7). Under this agreement, the Company pays a premium to UPARC to reinsure the risk of uncollectible

## PRUCO LIFE INSURANCE COMPANY

## Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

policy charges and fees associated with the no-lapse guarantee provision. Reinsurance of this risk is accounted for as an embedded derivative which is included in “Reinsurance recoverables”. The fair value of this embedded derivative is the present value of expected reimbursement from UPARC for cost of insurance charges the Company is unable to collect from policyholders, less the present value of reinsurance premiums that is attributable to the embedded derivative feature. This methodology could result in either an asset or liability, given changes in capital market conditions and various policyholder behavior assumptions. Significant inputs to the valuation model for this embedded derivative include capital market assumptions, such as interest rates, estimated NPR of the counterparty, and various assumptions that are actuarially determined, including lapse rates, premium payment patterns and mortality rates.

**Future Policy Benefits** – The liability for future policy benefits is related to guarantees primarily associated with the living benefit features of certain variable annuity contracts, including guaranteed minimum accumulation benefits (“GMAB”), guaranteed minimum withdrawal benefits (“GMWB”) and guaranteed minimum income and withdrawal benefits (“GMIWB”), accounted for as embedded derivatives. The fair values of these liabilities are calculated as the present value of future expected benefit payments to contractholders less the present value of future expected rider fees attributable to the optional living benefit feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various actuarial assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management’s judgment.

The significant inputs to the valuation models for these embedded derivatives include capital market assumptions, such as interest rate levels and volatility assumptions, the Company’s market-perceived NPR, as well as actuarially determined assumptions, including contractholder behavior such as lapse rates, benefit utilization rates, withdrawal rates and mortality rates. Since many of these assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level 3 in the fair value hierarchy.

Capital market inputs and actual contractholders’ account values are updated each quarter based on capital market conditions as of the end of the quarter, including interest rates, equity markets and volatility. In the risk neutral valuation, the initial swap curve drives the total return used to grow the contractholders’ account values. The Company’s discount rate assumption is based on the LIBOR swap curve adjusted for an additional spread relative to LIBOR to reflect NPR.

Actuarial assumptions, including contractholder behavior and mortality, are reviewed at least annually and updated based upon emerging experience, future expectations and other data, including any observable market data. These assumptions are generally updated annually unless a material change that the Company feels is indicative of a long-term trend is observed in an interim period.

**Transfers between Levels 1 and 2** – Transfers between levels are made to reflect changes in observability of inputs and market activity. Transfers into or out of any level are generally reported as the value as of the beginning of the quarter in which the transfers occur for any such assets still held at the end of the quarter. Periodically there are transfers between Level 1 and Level 2 for assets held in the Company’s separate account. During the three and six months ended June 30, 2016 and 2015, there were no transfers between Levels 1 and 2.

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**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**Level 3 Assets and Liabilities by Price Source** – The tables below present the balances of Level 3 assets and liabilities measured at fair value with their corresponding pricing sources.

|                                        | June 30, 2016  |             |              |
|----------------------------------------|----------------|-------------|--------------|
|                                        | Internal(1)    | External(2) | Total        |
|                                        | (in thousands) |             |              |
| Corporate securities(3)                | \$ 43,272      | \$ 55,000   | \$ 98,272    |
| Asset-backed securities(4)             | 86             | 40,741      | 40,827       |
| Equity securities                      | 4,554          | 12,519      | 17,073       |
| Other long-term investments            | 0              | 2,479       | 2,479        |
| Reinsurance recoverables               | 9,141,712      | 0           | 9,141,712    |
| Receivables from parent and affiliates | 0              | 556         | 556          |
| Total assets                           | \$ 9,189,624   | \$ 111,295  | \$ 9,300,919 |
| Future policy benefits                 | \$ 8,657,255   | \$ 0        | \$ 8,657,255 |
| Total liabilities                      | \$ 8,657,255   | \$ 0        | \$ 8,657,255 |

  

|                                        | December 31, 2015 |             |              |
|----------------------------------------|-------------------|-------------|--------------|
|                                        | Internal(1)       | External(2) | Total        |
|                                        | (in thousands)    |             |              |
| Corporate securities(3)                | \$ 40,492         | \$ 55,000   | \$ 95,492    |
| Asset-backed securities(4)             | 158               | 173,189     | 173,347      |
| Equity securities                      | 165               | 18,248      | 18,413       |
| Other long-term investments(5)         | 3,260             | 2,444       | 5,704        |
| Reinsurance recoverables               | 4,940,011         | 0           | 4,940,011    |
| Receivables from parent and affiliates | 0                 | 5,000       | 5,000        |
| Total assets                           | \$ 4,984,086      | \$ 253,881  | \$ 5,237,967 |
| Future policy benefits                 | \$ 5,205,434      | \$ 0        | \$ 5,205,434 |
| Total liabilities                      | \$ 5,205,434      | \$ 0        | \$ 5,205,434 |

(1) Represents valuations reflecting both internally-derived and market inputs, as well as third-party pricing information or quotes. See below for additional information related to internally-developed valuation for significant items in the above table.

(2) Represents unadjusted prices from independent pricing services and independent indicative broker quotes where pricing inputs are not readily available.

(3) Includes assets classified as fixed maturities available-for-sale.

(4) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

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

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**Quantitative Information Regarding Internally Priced Level 3 Assets and Liabilities** – The tables below present quantitative information on significant internally-priced Level 3 assets and liabilities (see narrative below for quantitative information for separate account assets).

| June 30, 2016                                 |              |                                                                         |                         |         |         |                               |                                              |
|-----------------------------------------------|--------------|-------------------------------------------------------------------------|-------------------------|---------|---------|-------------------------------|----------------------------------------------|
|                                               | Fair Value   | Valuation Techniques                                                    | Unobservable Inputs     | Minimum | Maximum | Weighted Average              | Impact of Increase in Input on Fair Value(1) |
| (in thousands)                                |              |                                                                         |                         |         |         |                               |                                              |
| <b>Assets:</b>                                |              |                                                                         |                         |         |         |                               |                                              |
| Corporate securities(12)                      | \$ 43,272    | Discounted cash flow                                                    | Discount rate           | 2.85%   | 13.96%  | 7.78%                         | Decrease                                     |
|                                               |              | Market comparables                                                      | EBITDA multiples(2)     | 5.0 X   | 5.0 X   | 5.0 X                         | Increase                                     |
| Reinsurance recoverables - Living Benefits    | \$ 8,656,240 | Fair values are determined in the same manner as future policy benefits |                         |         |         |                               |                                              |
| Reinsurance recoverables - No Lapse Guarantee | \$ 485,472   | Discounted cash flow                                                    | Lapse rate(3)           | 0%      | 12%     |                               | Decrease                                     |
|                                               |              |                                                                         | NPR spread(4)           | 0.41%   | 1.76%   |                               | Decrease                                     |
|                                               |              |                                                                         | Mortality rate(5)       | 0%      | 31%     |                               | Decrease                                     |
|                                               |              |                                                                         | Premium payment(6)      | 0.65 X  | 0.95 X  |                               | Decrease                                     |
| <b>Liabilities:</b>                           |              |                                                                         |                         |         |         |                               |                                              |
| Future policy benefits(7)                     | \$ 8,657,255 | Discounted cash flow                                                    | Lapse rate(8)           | 0%      | 13%     |                               | Decrease                                     |
|                                               |              |                                                                         | NPR spread(4)           | 0.41%   | 1.76%   |                               | Decrease                                     |
|                                               |              |                                                                         | Utilization rate(9)     | 52%     | 96%     |                               | Increase                                     |
|                                               |              |                                                                         | Withdrawal rate         |         |         | See table footnote (10) below |                                              |
|                                               |              |                                                                         | Mortality rate(11)      | 0%      | 14%     |                               | Decrease                                     |
|                                               |              |                                                                         | Equity volatility curve | 17%     | 25%     |                               | Increase                                     |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**
**December 31, 2015**

|                                               | Fair Value   | Valuation Techniques                                                    | Unobservable Inputs     | Minimum | Maximum | Weighted Average | Impact of Increase in Input on Fair Value(1) |
|-----------------------------------------------|--------------|-------------------------------------------------------------------------|-------------------------|---------|---------|------------------|----------------------------------------------|
| (in thousands)                                |              |                                                                         |                         |         |         |                  |                                              |
| <b>Assets:</b>                                |              |                                                                         |                         |         |         |                  |                                              |
| Corporate securities(12)                      | \$ 40,492    | Discounted cash flow                                                    | Discount rate           | 5.76%   | 17.95%  | 8.35%            | Decrease                                     |
|                                               |              | Market comparables                                                      | EBITDA multiples(2)     | 5.0 X   | 5.0 X   | 5.0 X            | Increase                                     |
| Reinsurance recoverables - Living Benefits    | \$ 4,600,193 | Fair values are determined in the same manner as future policy benefits |                         |         |         |                  |                                              |
| Reinsurance recoverables - No Lapse Guarantee | \$ 339,818   | Discounted cash flow                                                    | Lapse rate(3)           | 0%      | 12%     |                  | Decrease                                     |
|                                               |              |                                                                         | NPR spread(4)           | 0.06%   | 1.76%   |                  | Decrease                                     |
|                                               |              |                                                                         | Mortality rate(5)       | 0%      | 20%     |                  | Decrease                                     |
|                                               |              |                                                                         | Premium payment(13)     | 1.00 X  | 3.75 X  |                  | Decrease                                     |
| <b>Liabilities:</b>                           |              |                                                                         |                         |         |         |                  |                                              |
| Future policy benefits(7)                     | \$ 5,205,434 | Discounted cash flow                                                    | Lapse rate(8)           | 0%      | 14%     |                  | Decrease                                     |
|                                               |              |                                                                         | NPR spread(4)           | 0.06%   | 1.76%   |                  | Decrease                                     |
|                                               |              |                                                                         | Utilization rate(9)     | 56%     | 96%     |                  | Increase                                     |
|                                               |              |                                                                         | Withdrawal rate(10)     | 74%     | 100%    |                  | Increase                                     |
|                                               |              |                                                                         | Mortality rate(11)      | 0%      | 14%     |                  | Decrease                                     |
|                                               |              |                                                                         | Equity volatility curve | 17%     | 28%     |                  | Increase                                     |

(1) Conversely, the impact of a decrease in input would have the opposite impact for the fair value as that presented in the table.

(2) EBITDA multiples represent multiples of earnings before interest, taxes, depreciation and amortization, and are amounts used when the reporting entity has determined that market participants would use such multiples when pricing the investments.

(3) For universal life, lapse rates vary based on funding level and other factors. Rates are set to zero when the no lapse guarantee is fully funded and the cash value is zero.

(4) To reflect NPR, the Company incorporates an additional spread over LIBOR into the discount rate used in the valuation of contracts in a liability position and generally not to those in a contra-liability position. The NPR spread reflects the financial strength ratings of the Company and its affiliates, as these are insurance liabilities and senior to debt. The additional spread over LIBOR is determined by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium.

(5) Universal life mortality rates are adjusted based on underwriting information. A mortality improvement assumption is also incorporated into the projection.

(6) For universal life, policyholders are assumed to pay a multiple of commissionable target premium levels (shown above and indicated as "X"). The multiples vary by funding level and policy duration. If the resulting premium in any duration is smaller than the minimum annual premium required to maintain the no-lapse guarantee, policyholders are assumed to pay the minimum annual premium. Policyholders are assumed to stop premium payments once the no-lapse guarantee is fully funded. The range shown as of June 30, 2016 excludes multiples for the first duration since all contracts are beyond the first duration. Assumption ranges for prior periods included first duration multiples.

(7) Future policy benefits primarily represent general account liabilities for the living benefit features of the Company's variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.

(8) Lapse rates are adjusted at the contract level based on the in-the-moneyness of the living benefit and reflect other factors, such as the applicability of any surrender charges. Lapse rates are reduced when contracts are more in-the-money. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.

(9) The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration, and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilize the benefit. Utilization assumptions may vary by product type, tax status and age. The impact of changes in these assumptions is highly dependent on the product type, the age of the contractholder at the time of the sale, and the timing of the first lifetime income withdrawal. Range reflects the utilization rate for the vast majority of business with living benefits.

(10) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions may vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of June 30, 2016, the minimum withdrawal assumption rate is 78% and the maximum withdrawal assumption rate may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

- (11) Range reflects the mortality rate for the vast majority of business with living benefits, with policyholders ranging from 35 to 90 years old. While the majority of living benefits have a minimum age requirement, certain benefits do not have an age restriction. This results in contractholders for certain benefits with mortality rates approaching 0%. Based on historical experience, the Company applies a set of age and duration specific mortality rate adjustments compared to standard industry tables. A mortality improvement assumption is also incorporated into the overall mortality table.
- (12) Includes assets classified as fixed maturities available-for-sale and other trading account assets.
- (13) For universal life, premium payment assumptions vary by funding level. Some policies are assumed to pay the minimum premium required to maintain the no lapse guarantee. Other policies are assumed to pay a multiple of commissionable target premium levels (shown above and indicated as “X”). Policyholders are assumed to stop premium payments once the no lapse guarantee is fully funded.

**Interrelationships Between Unobservable Inputs** – In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another, or multiple, inputs. Examples of such interrelationships for significant internally-priced Level 3 assets and liabilities are as follows:

*Corporate Securities* - The rate used to discount future cash flows reflects current risk free rates plus credit and liquidity spread requirements that market participants would use to value an asset. The discount rate may be influenced by many factors, including market cycles, expectations of default, collateral, term, and asset complexity. Each of these factors can influence discount rates, either in isolation, or in response to other factors.

*Future Policy Benefits* - The Company expects efficient benefit utilization and withdrawal rates to generally be correlated with lapse rates. However, behavior is generally highly dependent on the facts and circumstances surrounding the individual contractholder, such as their liquidity needs or tax situation, which could drive lapse behavior independent of other contractholder behavior assumptions. To the extent more efficient contractholder behavior results in greater in-the-moneyness at the contract level, lapse rates may decline for those contracts. Similarly, to the extent that increases in equity volatility are correlated with overall declines in the capital markets, lapse rates may decline as contracts become more in-the-money.

**Valuation Process for Fair Value Measurements Categorized within Level 3** – The Company has established an internal control infrastructure over the valuation of financial instruments that requires ongoing oversight by its various business groups. These management control functions are segregated from the trading and investing functions. For invested assets, the Company has established oversight teams, often in the form of pricing committees within each asset management group. The teams, which typically include representation from investment, accounting, operations, legal and other disciplines are responsible for overseeing and monitoring the pricing of the Company’s investments and performing periodic due diligence reviews of independent pricing services. An actuarial valuation team oversees the valuation of living benefit features of the Company’s variable annuity contracts.

The Company has also established policies and guidelines that require the establishment of valuation methodologies and consistent application of such methodologies. These policies and guidelines govern the use of inputs and price source hierarchies and provide controls around the valuation processes. These controls include appropriate review and analysis of investment prices against market activity or indicators of reasonableness, analysis of portfolio returns to corresponding benchmark returns, back-testing, review of bid-ask spreads to assess activity, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. For living benefit features of the Company’s variable annuity products, the actuarial valuation unit periodically tests contract input data and actuarial assumptions are reviewed at least annually and updated based upon emerging experience, future expectations and other data, including any observable market data. The valuation policies and guidelines are reviewed and updated as appropriate.

Within the trading and investing functions, the Company has established policies and procedures that relate to the approval of all new transaction types, transaction pricing sources and fair value hierarchy coding within the financial reporting system. For variable annuity product changes or new launches of living benefit features, the actuarial valuation unit validates input logic and new product features and agrees new input data directly to source documents.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

**Changes in Level 3 Assets and Liabilities** – The following tables provide summaries of the changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods:

|                                                     | Three Months Ended June 30, 2016    |                                      |                                         |                            |                                                 |
|-----------------------------------------------------|-------------------------------------|--------------------------------------|-----------------------------------------|----------------------------|-------------------------------------------------|
|                                                     | Fixed Maturities Available-for-Sale |                                      |                                         |                            | Trading Account<br>Assets- Equity<br>Securities |
|                                                     | U.S. Corporate<br>Public Securities | U.S. Corporate<br>Private Securities | Foreign Corporate<br>Private Securities | Asset-Backed<br>Securities |                                                 |
|                                                     | (in thousands)                      |                                      |                                         |                            |                                                 |
| Fair value, beginning of period                     | \$ 55,003                           | \$ 29,248                            | \$ 14,198                               | \$ 124,391                 | \$ 22,199                                       |
| Total gains (losses) (realized/unrealized):         |                                     |                                      |                                         |                            |                                                 |
| Included in earnings:                               |                                     |                                      |                                         |                            |                                                 |
| Realized investment gains (losses), net             | 0                                   | 483                                  | 35                                      | (25)                       | 0                                               |
| Asset management fees and other income              | 0                                   | 0                                    | 0                                       | 0                          | (455)                                           |
| Included in other comprehensive income (loss)       | 0                                   | 800                                  | (255)                                   | 161                        | 0                                               |
| Net investment income                               | 0                                   | 26                                   | 9                                       | 28                         | 0                                               |
| Purchases                                           | 0                                   | 198                                  | 54                                      | 7,184                      | 0                                               |
| Sales                                               | 0                                   | (7,943)                              | (1,950)                                 | (39,139)                   | (4,862)                                         |
| Issuances                                           | 0                                   | 0                                    | 0                                       | 0                          | 0                                               |
| Settlements                                         | 0                                   | (193)                                | (1,722)                                 | (261)                      | 0                                               |
| Transfers into Level 3(1)                           | 0                                   | 10,281                               | 0                                       | 24,727                     | 0                                               |
| Transfers out of Level 3(1)                         | 0                                   | 0                                    | 0                                       | (76,239)                   | 0                                               |
| Fair value, end of period                           | \$ 55,003                           | \$ 32,900                            | \$ 10,369                               | \$ 40,827                  | \$ 16,882                                       |
| Unrealized gains (losses) for assets still held(2): |                                     |                                      |                                         |                            |                                                 |
| Included in earnings:                               |                                     |                                      |                                         |                            |                                                 |
| Realized investment gains (losses), net             | \$ 0                                | \$ 0                                 | \$ 0                                    | \$ (6)                     | \$ 0                                            |
| Asset management fees and other income              | \$ 0                                | \$ 0                                 | \$ 0                                    | \$ 0                       | \$ (1,534)                                      |

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**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                 | Three Months Ended June 30, 2016         |                                   |                                               |                                              |                           |
|-----------------------------------------------------------------|------------------------------------------|-----------------------------------|-----------------------------------------------|----------------------------------------------|---------------------------|
|                                                                 | Equity Securities,<br>Available-for-Sale | Other<br>Long-term<br>Investments | Reinsurance<br>Recoverables<br>(in thousands) | Receivables<br>from Parent and<br>Affiliates | Future Policy<br>Benefits |
| Fair value, beginning of period                                 | \$ 150                                   | \$ 2,444                          | \$ 6,741,737                                  | \$ 569                                       | \$ (7,098,647)            |
| Total gains (losses) (realized/unrealized):                     |                                          |                                   |                                               |                                              |                           |
| Included in earnings:                                           |                                          |                                   |                                               |                                              |                           |
| Realized investment gains (losses), net(6)                      | 0                                        | 0                                 | 2,190,814                                     | 0                                            | (1,360,590)               |
| Asset management fees and other income                          | 0                                        | 0                                 | 0                                             | 0                                            | 0                         |
| Included in other comprehensive income (loss)                   | 41                                       | 0                                 | 0                                             | (14)                                         | 0                         |
| Net investment income                                           | 0                                        | (67)                              | 0                                             | 0                                            | 0                         |
| Purchases                                                       | 0                                        | 102                               | 209,161                                       | 0                                            | 0                         |
| Sales                                                           | 0                                        | 0                                 | 0                                             | 1                                            | 0                         |
| Issuances                                                       | 0                                        | 0                                 | 0                                             | 0                                            | (198,018)                 |
| Settlements                                                     | 0                                        | 0                                 | 0                                             | 0                                            | 0                         |
| Transfers into Level 3(1)                                       | 0                                        | 0                                 | 0                                             | 0                                            | 0                         |
| Transfers out of Level 3(1)                                     | 0                                        | 0                                 | 0                                             | (2,464)                                      | 0                         |
| Other(3)                                                        | 0                                        | 0                                 | 0                                             | 2,464                                        | 0                         |
| Fair value, end of period                                       | <u>\$ 191</u>                            | <u>\$ 2,479</u>                   | <u>\$ 9,141,712</u>                           | <u>\$ 556</u>                                | <u>\$ (8,657,255)</u>     |
| Unrealized gains (losses) for assets/liabilities still held(2): |                                          |                                   |                                               |                                              |                           |
| Included in earnings:                                           |                                          |                                   |                                               |                                              |                           |
| Realized investment gains (losses), net                         | \$ 0                                     | \$ 0                              | \$ 7,274,811                                  | \$ 0                                         | \$ (1,558,608)            |
| Asset management fees and other income                          | \$ 0                                     | \$ 0                              | \$ 0                                          | \$ 0                                         | \$ 0                      |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| Six Months Ended June 30, 2016                      |                                     |                                      |                                         |                            |                                                 |
|-----------------------------------------------------|-------------------------------------|--------------------------------------|-----------------------------------------|----------------------------|-------------------------------------------------|
|                                                     | Fixed Maturities Available-for-Sale |                                      |                                         |                            | Trading Account<br>Assets- Equity<br>Securities |
|                                                     | U.S. Corporate<br>Public Securities | U.S. Corporate<br>Private Securities | Foreign Corporate<br>Private Securities | Asset-Backed<br>Securities |                                                 |
|                                                     | (in thousands)                      |                                      |                                         |                            |                                                 |
| Fair value, beginning of period                     | \$ 55,003                           | \$ 22,716                            | \$ 17,773                               | \$ 173,347                 | \$ 18,248                                       |
| Total gains (losses) (realized/unrealized):         |                                     |                                      |                                         |                            |                                                 |
| Included in earnings:                               |                                     |                                      |                                         |                            |                                                 |
| Realized investment gains (losses), net             | 0                                   | (25)                                 | (159)                                   | (16)                       | 0                                               |
| Asset management fees and other income              | 0                                   | 0                                    | 0                                       | 0                          | 236                                             |
| Included in other comprehensive income (loss)       | 0                                   | (176)                                | (470)                                   | (741)                      | 0                                               |
| Net investment income                               | 0                                   | 30                                   | 14                                      | 126                        | 0                                               |
| Purchases                                           | 0                                   | 407                                  | 119                                     | 7,184                      | 0                                               |
| Sales                                               | 0                                   | (7,943)                              | (1,950)                                 | (39,139)                   | (4,862)                                         |
| Issuances                                           | 0                                   | 0                                    | 0                                       | 0                          | 0                                               |
| Settlements                                         | 0                                   | (1,143)                              | (6,545)                                 | (604)                      | 0                                               |
| Transfers into Level 3(1)                           | 0                                   | 19,034                               | 1,587                                   | 35,643                     | 0                                               |
| Transfers out of Level 3(1)                         | 0                                   | 0                                    | 0                                       | (134,973)                  | 0                                               |
| Other(5)                                            | 0                                   | 0                                    | 0                                       | 0                          | 3,260                                           |
| Fair value, end of period                           | \$ 55,003                           | \$ 32,900                            | \$ 10,369                               | \$ 40,827                  | \$ 16,882                                       |
| Unrealized gains (losses) for assets still held(2): |                                     |                                      |                                         |                            |                                                 |
| Included in earnings:                               |                                     |                                      |                                         |                            |                                                 |
| Realized investment gains (losses), net             | \$ 0                                | \$ (508)                             | \$ 0                                    | \$ (6)                     | \$ 0                                            |
| Asset management fees and other income              | \$ 0                                | \$ 0                                 | \$ 0                                    | \$ 0                       | \$ (842)                                        |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                 | Six Months Ended June 30, 2016           |                                   |                                               |                                              |                           |
|-----------------------------------------------------------------|------------------------------------------|-----------------------------------|-----------------------------------------------|----------------------------------------------|---------------------------|
|                                                                 | Equity Securities,<br>Available-for-Sale | Other<br>Long-term<br>Investments | Reinsurance<br>Recoverables<br>(in thousands) | Receivables<br>from Parent and<br>Affiliates | Future Policy<br>Benefits |
| Fair value, beginning of period                                 | \$ 165                                   | \$ 5,704                          | \$ 4,940,011                                  | \$ 5,000                                     | \$ (5,205,434)            |
| Total gains (losses) (realized/unrealized):                     |                                          |                                   |                                               |                                              |                           |
| Included in earnings:                                           |                                          |                                   |                                               |                                              |                           |
| Realized investment gains (losses), net(6)                      | 0                                        | 0                                 | 3,816,701                                     | (13)                                         | (3,060,821)               |
| Asset management fees and other income                          | 0                                        | 0                                 | 0                                             | 0                                            | 0                         |
| Included in other comprehensive income (loss)                   | 26                                       | 0                                 | 0                                             | 20                                           | 0                         |
| Net investment income                                           | 0                                        | (67)                              | 0                                             | 0                                            | 0                         |
| Purchases                                                       | 0                                        | 102                               | 385,000                                       | 0                                            | 0                         |
| Sales                                                           | 0                                        | 0                                 | 0                                             | (1,987)                                      | 0                         |
| Issuances                                                       | 0                                        | 0                                 | 0                                             | 0                                            | (391,000)                 |
| Settlements                                                     | 0                                        | 0                                 | 0                                             | 0                                            | 0                         |
| Transfers into Level 3(1)                                       | 0                                        | 0                                 | 0                                             | 0                                            | 0                         |
| Transfers out of Level 3(1)                                     | 0                                        | 0                                 | 0                                             | (2,464)                                      | 0                         |
| Other(5)                                                        | 0                                        | (3,260)                           | 0                                             | 0                                            | 0                         |
| Fair value, end of period                                       | <u>\$ 191</u>                            | <u>\$ 2,479</u>                   | <u>\$ 9,141,712</u>                           | <u>\$ 556</u>                                | <u>\$ (8,657,255)</u>     |
| Unrealized gains (losses) for assets/liabilities still held(2): |                                          |                                   |                                               |                                              |                           |
| Included in earnings:                                           |                                          |                                   |                                               |                                              |                           |
| Realized investment gains (losses), net                         | \$ 0                                     | \$ 0                              | \$ 8,136,702                                  | \$ 0                                         | \$ (3,451,821)            |
| Asset management fees and other income                          | \$ 0                                     | \$ 0                              | \$ 0                                          | \$ 0                                         | \$ 0                      |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| Three Months Ended June 30, 2015(4)                 |                                     |                                      |                                         |                            |                                                    |
|-----------------------------------------------------|-------------------------------------|--------------------------------------|-----------------------------------------|----------------------------|----------------------------------------------------|
|                                                     | Fixed Maturities Available-for-Sale |                                      |                                         |                            | Trading<br>Account Assets-<br>Equity<br>Securities |
|                                                     | U.S. Corporate<br>Public Securities | U.S. Corporate<br>Private Securities | Foreign Corporate<br>Private Securities | Asset-Backed<br>Securities |                                                    |
|                                                     | (in thousands)                      |                                      |                                         |                            |                                                    |
| Fair value, beginning of period                     | \$ 63,501                           | \$ 14,812                            | \$ 8,602                                | \$ 201,051                 | \$ 18,369                                          |
| Total gains (losses) (realized/unrealized):         |                                     |                                      |                                         |                            |                                                    |
| Included in earnings:                               |                                     |                                      |                                         |                            |                                                    |
| Realized investment gains (losses), net             | 0                                   | (358)                                | 0                                       | (3)                        | 0                                                  |
| Asset management fees and other income              | 0                                   | 0                                    | 0                                       | 0                          | 0                                                  |
| Included in other comprehensive income (loss)       | (8)                                 | 337                                  | 391                                     | 179                        | 0                                                  |
| Net investment income                               | 0                                   | 5                                    | 7                                       | (8)                        | 0                                                  |
| Purchases                                           | 54,999                              | 209                                  | 1,461                                   | 38,129                     | 0                                                  |
| Sales                                               | (55,000)                            | (2)                                  | 0                                       | (37,131)                   | 0                                                  |
| Issuances                                           | 0                                   | 0                                    | 0                                       | 0                          | 0                                                  |
| Settlements                                         | (8)                                 | (254)                                | 0                                       | (54)                       | 0                                                  |
| Transfers into Level 3(1)                           | 0                                   | 0                                    | 0                                       | 2,710                      | 0                                                  |
| Transfers out of Level 3(1)                         | (7,796)                             | (416)                                | 0                                       | (32,673)                   | 0                                                  |
| Fair value, end of period                           | <u>\$ 55,688</u>                    | <u>\$ 14,333</u>                     | <u>\$ 10,461</u>                        | <u>\$ 172,200</u>          | <u>\$ 18,369</u>                                   |
| Unrealized gains (losses) for assets still held(2): |                                     |                                      |                                         |                            |                                                    |
| Included in earnings:                               |                                     |                                      |                                         |                            |                                                    |
| Realized investment gains (losses), net             | \$ 0                                | \$ (357)                             | \$ 0                                    | \$ 0                       | \$ 0                                               |
| Asset management fees and other income              | \$ 0                                | \$ 0                                 | \$ 0                                    | \$ 0                       | \$ 0                                               |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                 | Three Months Ended June 30, 2015(4)      |                                |                                            |                                           |                           |
|-----------------------------------------------------------------|------------------------------------------|--------------------------------|--------------------------------------------|-------------------------------------------|---------------------------|
|                                                                 | Equity Securities,<br>Available-for-Sale | Other Long-term<br>Investments | Reinsurance Recoverables<br>(in thousands) | Receivables from<br>Parent and Affiliates | Future Policy<br>Benefits |
| Fair value, beginning of period                                 | \$ 747                                   | \$ 617                         | \$ 5,822,107                               | \$ 21,169                                 | \$ (5,944,815)            |
| Total gains (losses) (realized/unrealized):                     |                                          |                                |                                            |                                           |                           |
| Included in earnings:                                           |                                          |                                |                                            |                                           |                           |
| Realized investment gains (losses), net                         | 0                                        | (206)                          | (2,966,250)                                | 0                                         | 3,005,834                 |
| Asset management fees and other income                          | 0                                        | 0                              | 0                                          | 0                                         | 0                         |
| Included in other comprehensive income (loss)                   | 106                                      | 0                              | 0                                          | 23                                        | 0                         |
| Net investment income                                           | 0                                        | 0                              | 0                                          | 0                                         | 0                         |
| Purchases                                                       | 0                                        | 386                            | 167,262                                    | 0                                         | 0                         |
| Sales                                                           | 0                                        | 0                              | 0                                          | 0                                         | 0                         |
| Issuances                                                       | 0                                        | 0                              | 0                                          | 0                                         | (178,190)                 |
| Settlements                                                     | 0                                        | 0                              | 0                                          | 0                                         | 0                         |
| Transfers into Level 3(1)                                       | 0                                        | 0                              | 0                                          | 0                                         | 0                         |
| Transfers out of Level 3(1)                                     | 0                                        | 0                              | 0                                          | (18,642)                                  | 0                         |
| Fair value, end of period                                       | <u>\$ 853</u>                            | <u>\$ 797</u>                  | <u>\$ 3,023,119</u>                        | <u>\$ 2,550</u>                           | <u>\$ (3,117,171)</u>     |
| Unrealized gains (losses) for assets/liabilities still held(2): |                                          |                                |                                            |                                           |                           |
| Included in earnings:                                           |                                          |                                |                                            |                                           |                           |
| Realized investment gains (losses), net                         | \$ 0                                     | \$ (206)                       | \$ (2,917,452)                             | \$ 0                                      | \$ 2,974,092              |
| Asset management fees and other income                          | \$ 0                                     | \$ 0                           | \$ 0                                       | \$ 0                                      | \$ 0                      |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                     | Six Months Ended June 30, 2015(4)   |                                   |                                                        |                         |                                          |
|-----------------------------------------------------|-------------------------------------|-----------------------------------|--------------------------------------------------------|-------------------------|------------------------------------------|
|                                                     | Fixed Maturities Available-for-Sale |                                   |                                                        |                         | Trading Account Assets-Equity Securities |
|                                                     | U.S. Corporate Public Securities    | U.S. Corporate Private Securities | Foreign Corporate Private Securities<br>(in thousands) | Asset-Backed Securities |                                          |
| Fair value, beginning of period                     | \$ 61,092                           | \$ 14,539                         | \$ 9,170                                               | \$ 100,217              | \$ 5,540                                 |
| Total gains (losses) (realized/unrealized):         |                                     |                                   |                                                        |                         |                                          |
| Included in earnings:                               |                                     |                                   |                                                        |                         |                                          |
| Realized investment gains (losses), net             | 0                                   | (358)                             | 62                                                     | (1)                     | 0                                        |
| Asset management fees and other income              | 0                                   | 0                                 | 0                                                      | 0                       | 2,328                                    |
| Included in other comprehensive income (loss)       | (52)                                | 60                                | 274                                                    | 709                     | 0                                        |
| Net investment income                               | (2)                                 | (7)                               | 15                                                     | (16)                    | 0                                        |
| Purchases                                           | 111,902                             | 458                               | 1,649                                                  | 111,759                 | 0                                        |
| Sales                                               | (110,000)                           | (4)                               | (31)                                                   | (37,131)                | 0                                        |
| Issuances                                           | 0                                   | 0                                 | 0                                                      | 0                       | 0                                        |
| Settlements                                         | (160)                               | (765)                             | (678)                                                  | (126)                   | (1,500)                                  |
| Transfers into Level 3(1)                           | 704                                 | 826                               | 0                                                      | 47,508                  | 0                                        |
| Transfers out of Level 3(1)                         | (7,796)                             | (416)                             | 0                                                      | (50,719)                | 0                                        |
| Other(3)                                            | 0                                   | 0                                 | 0                                                      | 0                       | 12,001                                   |
| Fair value, end of period                           | <u>\$ 55,688</u>                    | <u>\$ 14,333</u>                  | <u>\$ 10,461</u>                                       | <u>\$ 172,200</u>       | <u>\$ 18,369</u>                         |
| Unrealized gains (losses) for assets still held(2): |                                     |                                   |                                                        |                         |                                          |
| Included in earnings:                               |                                     |                                   |                                                        |                         |                                          |
| Realized investment gains (losses), net             | \$ 0                                | \$ (357)                          | \$ 0                                                   | \$ 0                    | \$ 0                                     |
| Asset management fees and other income              | \$ 0                                | \$ 0                              | \$ 0                                                   | \$ 0                    | \$ 2,283                                 |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                 | Six Months Ended June 30, 2015(4)        |                                |                                            |                                           |                           |
|-----------------------------------------------------------------|------------------------------------------|--------------------------------|--------------------------------------------|-------------------------------------------|---------------------------|
|                                                                 | Equity Securities,<br>Available-for-Sale | Other Long-term<br>Investments | Reinsurance Recoverables<br>(in thousands) | Receivables from<br>Parent and Affiliates | Future Policy<br>Benefits |
| Fair value, beginning of period                                 | \$ 750                                   | \$ 596                         | \$ 4,897,545                               | \$ 19,203                                 | \$ (4,993,611)            |
| Total gains (losses) (realized/unrealized):                     |                                          |                                |                                            |                                           |                           |
| Included in earnings:                                           |                                          |                                |                                            |                                           |                           |
| Realized investment gains (losses), net                         | 0                                        | (155)                          | (2,206,893)                                | 0                                         | 2,229,227                 |
| Asset management fees and other income                          | 0                                        | 0                              | 0                                          | 0                                         | 0                         |
| Included in other comprehensive income (loss)                   | 103                                      | 0                              | 0                                          | 2                                         | 0                         |
| Net investment income                                           | 0                                        | 0                              | 0                                          | 0                                         | 0                         |
| Purchases                                                       | 0                                        | 386                            | 332,467                                    | 0                                         | 0                         |
| Sales                                                           | 0                                        | 0                              | 0                                          | 0                                         | 0                         |
| Issuances                                                       | 0                                        | 0                              | 0                                          | 0                                         | (352,787)                 |
| Settlements                                                     | 0                                        | 0                              | 0                                          | 0                                         | 0                         |
| Transfers into Level 3(1)                                       | 0                                        | 0                              | 0                                          | 1,986                                     | 0                         |
| Transfers out of Level 3(1)                                     | 0                                        | (30)                           | 0                                          | (18,641)                                  | 0                         |
| Fair value, end of period                                       | \$ 853                                   | \$ 797                         | \$ 3,023,119                               | \$ 2,550                                  | \$ (3,117,171)            |
| Unrealized gains (losses) for assets/liabilities still held(2): |                                          |                                |                                            |                                           |                           |
| Included in earnings:                                           |                                          |                                |                                            |                                           |                           |
| Realized investment gains (losses), net                         | \$ 0                                     | \$ (154)                       | \$ (2,128,845)                             | \$ 0                                      | \$ 2,165,005              |
| Asset management fees and other income                          | \$ 0                                     | \$ 0                           | \$ 0                                       | \$ 0                                      | \$ 0                      |

(1) Transfers into or out of any level are generally reported as the value as of the beginning of the quarter in which the transfer occurs for any such assets still held at the end of the quarter.

(2) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.

(3) Other primarily represents reclassifications of certain assets between reporting categories.

(4) Prior period amounts have been reclassified to conform to current period presentation, including the adoption of ASU 2015-07.

(5) Primarily related to private warrants reclassified from derivatives to trading securities.

(6) Realized investment gains (losses) on Future Policy Benefits and Reinsurance Recoverables primarily represents the change in the fair value of the Company's living benefit guarantees on certain of its variable annuity contracts. Refer to Note 1 for impacts to Realized investments gains (losses) related to the Variable Annuities Recapture.

**Transfers** – Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies and the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company is able to validate.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**
**Fair Value of Financial Instruments**

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. The financial instruments presented below are reported at carrying value on the Company's Unaudited Interim Consolidated Statements of Financial Position; however, in some cases, as described below, the carrying amount equals or approximates fair value.

|                                                        | June 30, 2016(1) |                     |                           |                     |                     |
|--------------------------------------------------------|------------------|---------------------|---------------------------|---------------------|---------------------|
|                                                        | Fair Value       |                     |                           |                     | Carrying Amount(2)  |
|                                                        | Level 1          | Level 2             | Level 3<br>(in thousands) | Total               | Total               |
| <b>Assets:</b>                                         |                  |                     |                           |                     |                     |
| Commercial mortgage and other loans                    | \$ 0             | \$ 0                | \$ 1,088,880              | \$ 1,088,880        | \$ 1,023,427        |
| Policy loans                                           | 0                | 0                   | 1,153,528                 | 1,153,528           | 1,153,528           |
| Short-term investments                                 | 0                | 5,000               | 0                         | 5,000               | 5,000               |
| Cash and cash equivalents                              | 26,552           | 106,000             | 0                         | 132,552             | 132,552             |
| Accrued investment income                              | 0                | 81,079              | 0                         | 81,079              | 81,079              |
| Receivables from parent and affiliates                 | 0                | 82,157              | 0                         | 82,157              | 82,157              |
| Other assets                                           | 0                | 28,108              | 0                         | 28,108              | 28,108              |
| <b>Total assets</b>                                    | <b>\$ 26,552</b> | <b>\$ 302,344</b>   | <b>\$ 2,242,408</b>       | <b>\$ 2,571,304</b> | <b>\$ 2,505,851</b> |
| <b>Liabilities:</b>                                    |                  |                     |                           |                     |                     |
| Policyholders' account balances - investment contracts | \$ 0             | \$ 1,019,421        | \$ 249,799                | \$ 1,269,220        | \$ 1,270,490        |
| Cash collateral for loaned securities                  | 0                | 156,688             | 0                         | 156,688             | 156,688             |
| Payables to parent and affiliates                      | 0                | 55,568              | 0                         | 55,568              | 55,568              |
| Other liabilities                                      | 0                | 252,619             | 0                         | 252,619             | 252,619             |
| <b>Total liabilities</b>                               | <b>\$ 0</b>      | <b>\$ 1,484,296</b> | <b>\$ 249,799</b>         | <b>\$ 1,734,095</b> | <b>\$ 1,735,365</b> |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                        | December 31, 2015(1) |              |              |              |                    |  |
|--------------------------------------------------------|----------------------|--------------|--------------|--------------|--------------------|--|
|                                                        | Fair Value           |              |              |              | Carrying Amount(2) |  |
|                                                        | Level 1              | Level 2      | Level 3      | Total        | Total              |  |
|                                                        | (in thousands)       |              |              |              |                    |  |
| Assets:                                                |                      |              |              |              |                    |  |
| Commercial mortgage and other loans                    | \$ 0                 | \$ 8,540     | \$ 1,701,951 | \$ 1,710,491 | \$ 1,658,235       |  |
| Policy loans                                           | 0                    | 0            | 1,143,303    | 1,143,303    | 1,143,303          |  |
| Cash and cash equivalents                              | 19,297               | 156,064      | 0            | 175,361      | 175,361            |  |
| Accrued investment income                              | 0                    | 100,031      | 0            | 100,031      | 100,031            |  |
| Receivables from parent and affiliates                 | 0                    | 65,628       | 0            | 65,628       | 65,628             |  |
| Other assets                                           | 0                    | 6,162        | 0            | 6,162        | 6,162              |  |
| Total assets                                           | \$ 19,297            | \$ 336,425   | \$ 2,845,254 | \$ 3,200,976 | \$ 3,148,720       |  |
| Liabilities:                                           |                      |              |              |              |                    |  |
| Policyholders' account balances - investment contracts | \$ 0                 | \$ 947,853   | \$ 236,891   | \$ 1,184,744 | \$ 1,190,596       |  |
| Cash collateral for loaned securities                  | 0                    | 40,416       | 0            | 40,416       | 40,416             |  |
| Short-term debt                                        | 0                    | 180,105      | 0            | 180,105      | 180,000            |  |
| Long-term debt                                         | 0                    | 1,227,110    | 0            | 1,227,110    | 1,204,000          |  |
| Payables to parent and affiliates                      | 0                    | 72,791       | 0            | 72,791       | 72,791             |  |
| Other liabilities                                      | 0                    | 343,089      | 0            | 343,089      | 343,089            |  |
| Total liabilities                                      | \$ 0                 | \$ 2,811,364 | \$ 236,891   | \$ 3,048,255 | \$ 3,030,892       |  |

- (1) As discussed in Note 2, the Company adopted ASU 2015-07, effective January 1, 2016, which resulted in the exclusion of certain other long-term investments from the fair value hierarchy. The guidance was required to be applied retrospectively, and therefore, prior period amounts have been revised to conform to the current period presentation. At June 30, 2016 and December 31, 2015, the fair values of these cost method investments were \$32 million and \$27 million, respectively, which had been previously classified in Level 3 at December 31, 2015. The carrying values of these investments were \$30 million and \$26 million as of June 30, 2016 and December 31, 2015, respectively.
- (2) Carrying values presented herein differ from those in the Company's Unaudited Interim Consolidated Statements of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments. Financial statement captions excluded from the above table are not considered financial instruments.

The fair values presented above have been determined by using available market information and by applying market valuation methodologies, as described in more detail below.

**Commercial Mortgage and Other Loans**

The fair value of most commercial mortgage loans is based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate plus an appropriate credit spread for similar quality loans. The quality ratings for these loans, a primary determinant of the credit spreads and a significant component of the pricing process, are based on an internally-developed methodology.

**Policy Loans**

The Company's valuation technique for policy loans is to discount cash flows at the current policy loan coupon rate. Policy loans are fully collateralized by the cash surrender value of underlying insurance policies. As a result, the carrying value of the policy loans approximates the fair value.

**Cash and Cash Equivalents, Accrued Investment Income, Receivables from Parent and Affiliates and Other Assets**

The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value. These assets include: cash and cash equivalent instruments, accrued investment income, and other assets that meet the definition of financial instruments, including receivables, such as unsettled trades and accounts receivable. Also included in receivables from parent and affiliates are affiliated notes whose fair value is determined in the same manner as the underlying debt described below under "Short-Term and Long-Term Debt".

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)*****Policyholders' Account Balances - Investment Contracts***

Only the portion of policyholders' account balances related to products that are investment contracts (those without significant mortality or morbidity risk) are reflected in the table above. For fixed deferred annuities, fair values are generally derived using discounted projected cash flows based on interest rates that are representative of the Company's financial strength ratings, and hence reflect the Company's own NPR. For those balances that can be withdrawn by the customer at any time without prior notice or penalty, the fair value is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value.

***Cash Collateral for Loaned Securities***

Cash collateral for loaned securities represents the collateral received or paid in connection with loaning or borrowing securities. For these transactions, the carrying value of the related asset/liability approximates fair value as they equal the amount of cash collateral received or paid.

***Short-Term and Long-Term Debt***

The fair value of short-term and long-term debt is generally determined by either prices obtained from independent pricing services, which are validated by the Company, or discounted cash flow models. These fair values consider the Company's own NPR. Discounted cash flow models predominately use market observable inputs such as the borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities. For debt with a maturity of less than 90 days, the carrying value approximates fair value.

***Other Liabilities and Payables to Parent and Affiliates***

Other liabilities and payables to parent and affiliates are primarily payables, such as unsettled trades, drafts, escrow deposits and accrued expense payables. Due to the short-term until settlement of most of these liabilities, the Company believes that carrying value approximates fair value.

**5. DERIVATIVE INSTRUMENTS*****Types of Derivative Instruments and Derivative Strategies******Interest Rate Contracts***

Interest rate swaps are used by the Company to reduce risks from changes in interest rates, manage interest rate exposures arising from mismatches between assets and liabilities (including duration mismatches) and to hedge against changes in the value of assets it owns or anticipates acquiring or selling. Swaps may be attributed to specific assets or liabilities or may be used on a portfolio basis. Under interest rate swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount.

***Equity Contracts***

Equity index options are contracts which will settle in cash based on differentials in the underlying indices at the time of exercise and the strike price. The Company uses combinations of purchases and sales of equity index options to hedge the effects of adverse changes in equity indices within a predetermined range.

Total return swaps are contracts whereby the Company agrees with counterparties to exchange, at specified intervals, the difference between the return on an asset (or market index) and LIBOR plus an associated funding spread based on a notional amount. The Company generally uses total return swaps to hedge the effect of adverse changes in equity indices.

***Foreign Exchange Contracts***

Currency derivatives, including currency swaps and forwards, are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

Under currency forwards, the Company agrees with counterparties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated. These earnings hedges do not qualify for hedge accounting.

Under currency swaps, the Company agrees with counterparties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date.

***Credit Contracts***

Credit derivatives are used by the Company to enhance the return on the Company's investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments. With credit derivatives the Company sells credit protection on a single name reference, or certain index reference, and in return receives a quarterly premium. With credit default derivatives, this premium or credit spread generally corresponds to the difference between the yield on the referenced name's public fixed maturity cash instruments and swap rates, at the time the agreement is executed. If there is an event of default by the referenced name, as defined by the agreement, then the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced defaulted security or similar security or pay the referenced amount less the auction recovery rate. See "Credit Derivatives" below for a discussion of guarantees related to credit derivatives written. In addition to selling credit protection, the Company may purchase credit protection using credit derivatives in order to hedge specific credit exposures in the Company's investment portfolio.

***Embedded Derivatives***

The Company sells variable annuity products which may include guaranteed benefit features that are accounted for as embedded derivatives. Related to these embedded derivatives, the Company has entered into reinsurance agreements to transfer the risk associated with certain benefit features to affiliates, PALAC and Prudential Insurance. See Note 1 for additional information on the change to the reinsurance agreements effective April 1, 2016.

Additionally, the Company has entered into a reinsurance agreement with Union Hamilton Reinsurance, Ltd., an external counterparty. The Company also reinsures a portion of the no-lapse guarantee provision on certain universal life products to an affiliate, UPARC.

These embedded derivatives and reinsurance agreements, which are derivatives and accounted for in the same manner as the embedded derivatives, are carried at fair value and are marked to market through "Realized investment gains (losses), net" based on the change in value of the underlying contractual guarantees, which are determined using valuation models as described in Note 4.

The table below provides a summary of the gross notional amount and fair value of derivative contracts by the primary underlying, excluding embedded derivatives which are recorded with the associated host and related reinsurance recoverable. Many derivative instruments contain multiple underlyings. The fair value amounts below represent the gross fair value of derivative contracts prior to taking into account the netting effects of master netting agreements, cash collateral held with the same counterparty, and non-performance risk.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                             | June 30, 2016 |                  |             | December 31, 2015 |                  |             |
|-------------------------------------------------------------|---------------|------------------|-------------|-------------------|------------------|-------------|
| Primary Underlying                                          | Notional      | Gross Fair Value |             | Notional          | Gross Fair Value |             |
|                                                             |               | Assets           | Liabilities |                   | Assets           | Liabilities |
| (in thousands)                                              |               |                  |             |                   |                  |             |
| Derivatives Designated as Hedge Accounting Instruments:     |               |                  |             |                   |                  |             |
| Currency/Interest Rate                                      |               |                  |             |                   |                  |             |
| Foreign Currency Swaps                                      | \$ 401,047    | \$ 40,453        | \$ (2,588)  | \$ 529,128        | \$ 50,877        | \$ (1,385)  |
| Total Qualifying Hedges                                     | \$ 401,047    | \$ 40,453        | \$ (2,588)  | \$ 529,128        | \$ 50,877        | \$ (1,385)  |
| Derivatives Not Qualifying as Hedge Accounting Instruments: |               |                  |             |                   |                  |             |
| Interest Rate                                               |               |                  |             |                   |                  |             |
| Interest Rate Swaps                                         | \$ 101,075    | \$ 15,119        | \$ (103)    | \$ 3,159,400      | \$ 203,313       | \$ (8,605)  |
| Foreign Currency                                            |               |                  |             |                   |                  |             |
| Foreign Currency Forwards                                   | 19,482        | 1,004            | 0           | 3,722             | 39               | (15)        |
| Credit                                                      |               |                  |             |                   |                  |             |
| Credit Default Swaps                                        | 7,275         | 71               | (294)       | 7,275             | 268              | (222)       |
| Currency/Interest Rate                                      |               |                  |             |                   |                  |             |
| Foreign Currency Swaps                                      | 57,209        | 8,751            | (133)       | 122,425           | 17,079           | (71)        |
| Equity                                                      |               |                  |             |                   |                  |             |
| Total Return Swaps                                          | 0             | 0                | 0           | 542,294           | 411              | (10,451)    |
| Equity Options                                              | 25,469,007    | 21,225           | (7,287)     | 25,345,369        | 28,668           | (12,100)    |
| Total Non-Qualifying Hedges                                 | \$ 25,654,048 | \$ 46,170        | \$ (7,817)  | \$ 29,180,485     | \$ 249,778       | \$ (31,464) |
| Total Derivatives (1)                                       | \$ 26,055,095 | \$ 86,623        | \$ (10,405) | \$ 29,709,613     | \$ 300,655       | \$ (32,849) |

(1) Excludes embedded derivatives and the related reinsurance recoverables which contain multiple underlyings. The fair value of these embedded derivatives was a net liability of \$8,657 million and \$5,205 million as of June 30, 2016 and December 31, 2015, respectively, included in "Future policy benefits." The fair value of the related reinsurance recoverables was an asset of \$9,142 million and \$4,940 million as of June 30, 2016 and December 31, 2015, respectively, included in "Reinsurance recoverables." See below.

The fair value of the related reinsurance recoverables includes an asset of \$8,595 million and \$4,593 million with affiliates, an asset of \$62 million and \$7 million with Union Hamilton Reinsurance, Ltd. and an asset of \$485 million and \$340 million with UPARC as of June 30, 2016 and December 31, 2015, respectively. See Note 7 for additional information on these reinsurance agreements.

**Offsetting Assets and Liabilities**

The following table presents recognized derivative instruments (excluding embedded derivatives and associated reinsurance recoverables), and repurchase and reverse repurchase agreements that are offset in the Unaudited Interim Consolidated Statements of Financial Position, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Unaudited Interim Consolidated Statements of Financial Position.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

| June 30, 2016                                  |                                                               |                                                                                            |                                                                                          |                                             |               |
|------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------|---------------|
|                                                | Gross<br>Amounts of<br>Recognized<br>Financial<br>Instruments | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Statement of<br>Financial<br>Position | Net Amounts<br>Presented in<br>the Consolidated<br>Statement<br>of Financial<br>Position | Financial<br>Instruments/<br>Collateral (1) | Net<br>Amount |
| (in thousands)                                 |                                                               |                                                                                            |                                                                                          |                                             |               |
| <b>Offsetting of Financial Assets:</b>         |                                                               |                                                                                            |                                                                                          |                                             |               |
| Derivatives (1)                                | \$ 86,619                                                     | \$ (10,295)                                                                                | \$ 76,324                                                                                | \$ (76,324)                                 | \$ 0          |
| Securities purchased under agreement to resell | 106,000                                                       | 0                                                                                          | 106,000                                                                                  | (106,000)                                   | 0             |
| Total Assets                                   | \$ 192,619                                                    | \$ (10,295)                                                                                | \$ 182,324                                                                               | \$ (182,324)                                | \$ 0          |
| <b>Offsetting of Financial Liabilities:</b>    |                                                               |                                                                                            |                                                                                          |                                             |               |
| Derivatives (1)                                | \$ 10,405                                                     | \$ (10,405)                                                                                | \$ 0                                                                                     | \$ 0                                        | \$ 0          |
| Securities sold under agreement to repurchase  | 0                                                             | 0                                                                                          | 0                                                                                        | 0                                           | 0             |
| Total Liabilities                              | \$ 10,405                                                     | \$ (10,405)                                                                                | \$ 0                                                                                     | \$ 0                                        | \$ 0          |
| December 31, 2015                              |                                                               |                                                                                            |                                                                                          |                                             |               |
|                                                | Gross<br>Amounts of<br>Recognized<br>Financial<br>Instruments | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Statement of<br>Financial<br>Position | Net Amounts<br>Presented in<br>the Consolidated<br>Statement<br>of Financial<br>Position | Financial<br>Instruments/<br>Collateral (1) | Net<br>Amount |
| (in thousands)                                 |                                                               |                                                                                            |                                                                                          |                                             |               |
| <b>Offsetting of Financial Assets:</b>         |                                                               |                                                                                            |                                                                                          |                                             |               |
| Derivatives (1)                                | \$ 297,371                                                    | \$ (230,554)                                                                               | \$ 66,817                                                                                | \$ (15,157)                                 | \$ 51,660     |
| Securities purchased under agreement to resell | 156,064                                                       | 0                                                                                          | 156,064                                                                                  | (156,064)                                   | 0             |
| Total Assets                                   | \$ 453,435                                                    | \$ (230,554)                                                                               | \$ 222,881                                                                               | \$ (171,221)                                | \$ 51,660     |
| <b>Offsetting of Financial Liabilities:</b>    |                                                               |                                                                                            |                                                                                          |                                             |               |
| Derivatives (1)                                | \$ 32,849                                                     | \$ (32,849)                                                                                | \$ 0                                                                                     | \$ 0                                        | \$ 0          |
| Securities sold under agreement to repurchase  | 0                                                             | 0                                                                                          | 0                                                                                        | 0                                           | 0             |
| Total Liabilities                              | \$ 32,849                                                     | \$ (32,849)                                                                                | \$ 0                                                                                     | \$ 0                                        | \$ 0          |

(1) Amounts exclude the excess of collateral received/pledged from/to the counterparty.

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see “Credit Risk” below and Note 7. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company’s accounting policy for securities repurchase and resale agreements, see Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

**Cash Flow Hedges**

The primary derivative instruments used by the Company in its cash flow hedge accounting relationships are currency swaps. These instruments are only designated for hedge accounting in instances where the appropriate criteria are met. The Company does not use futures, options, credit, equity or embedded derivatives in any of its cash flow hedge accounting relationships.

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The following tables provide the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, excluding the offset of the hedged item in an effective hedge relationship.

| Three Months Ended June 30, 2016                                   |                                          |                             |                 |                 |
|--------------------------------------------------------------------|------------------------------------------|-----------------------------|-----------------|-----------------|
|                                                                    | Realized<br>Investment<br>Gains (Losses) | Net<br>Investment<br>Income | Other<br>Income | AOCI (1)        |
| (in thousands)                                                     |                                          |                             |                 |                 |
| <b>Derivatives Designated as Hedge Accounting Instruments:</b>     |                                          |                             |                 |                 |
| <b>Cash flow hedges</b>                                            |                                          |                             |                 |                 |
| Currency/Interest Rate                                             | \$ 0                                     | \$ 883                      | \$ 1,655        | \$ 6,971        |
| Total cash flow hedges                                             | 0                                        | 883                         | 1,655           | 6,971           |
| <b>Derivatives Not Qualifying as Hedge Accounting Instruments:</b> |                                          |                             |                 |                 |
| Interest Rate                                                      | 1,951                                    | 0                           | 0               | 0               |
| Currency                                                           | 1,010                                    | 0                           | 0               | 0               |
| Currency/Interest Rate                                             | 7,930                                    | 0                           | (47)            | 0               |
| Credit                                                             | (126)                                    | 0                           | 0               | 0               |
| Equity                                                             | (1,926)                                  | 0                           | 0               | 0               |
| Embedded Derivatives                                               | 733,508                                  | 0                           | 0               | 0               |
| Total non-qualifying hedges                                        | 742,347                                  | 0                           | (47)            | 0               |
| <b>Total</b>                                                       | <b>\$ 742,347</b>                        | <b>\$ 883</b>               | <b>\$ 1,608</b> | <b>\$ 6,971</b> |

| Six Months Ended June 30, 2016                                     |                                          |                             |                 |                    |
|--------------------------------------------------------------------|------------------------------------------|-----------------------------|-----------------|--------------------|
|                                                                    | Realized<br>Investment<br>Gains (Losses) | Net<br>Investment<br>Income | Other<br>Income | AOCI (1)           |
| (in thousands)                                                     |                                          |                             |                 |                    |
| <b>Derivatives Designated as Hedge Accounting Instruments:</b>     |                                          |                             |                 |                    |
| <b>Cash flow hedges</b>                                            |                                          |                             |                 |                    |
| Currency/Interest Rate                                             | \$ 0                                     | \$ 2,288                    | \$ (244)        | \$ (10,128)        |
| Total cash flow hedges                                             | 0                                        | 2,288                       | (244)           | (10,128)           |
| <b>Derivatives Not Qualifying as Hedge Accounting Instruments:</b> |                                          |                             |                 |                    |
| Interest Rate                                                      | 191,878                                  | 0                           | 0               | 0                  |
| Currency                                                           | 885                                      | 0                           | 0               | 0                  |
| Currency/Interest Rate                                             | 6,834                                    | 0                           | (57)            | 0                  |
| Credit                                                             | (367)                                    | 0                           | 0               | 0                  |
| Equity                                                             | (5,240)                                  | 0                           | 0               | 0                  |
| Embedded Derivatives                                               | 618,004                                  | 0                           | 0               | 0                  |
| Total non-qualifying hedges                                        | 811,994                                  | 0                           | (57)            | 0                  |
| <b>Total</b>                                                       | <b>\$ 811,994</b>                        | <b>\$ 2,288</b>             | <b>\$ (301)</b> | <b>\$ (10,128)</b> |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                             | Three Months Ended June 30, 2015         |                             |                 |             |
|-------------------------------------------------------------|------------------------------------------|-----------------------------|-----------------|-------------|
|                                                             | Realized<br>Investment<br>Gains (Losses) | Net<br>Investment<br>Income | Other<br>Income | AOCI (1)    |
|                                                             | (in thousands)                           |                             |                 |             |
| Derivatives Designated as Hedge Accounting Instruments:     |                                          |                             |                 |             |
| Cash flow hedges                                            |                                          |                             |                 |             |
| Currency/Interest Rate                                      | \$ 0                                     | \$ 711                      | \$ (1,347)      | \$ (11,795) |
| Total cash flow hedges                                      | 0                                        | 711                         | (1,347)         | (11,795)    |
| Derivatives Not Qualifying as Hedge Accounting Instruments: |                                          |                             |                 |             |
| Interest Rate                                               | (164,405)                                | 0                           | 0               | 0           |
| Currency                                                    | (84)                                     | 0                           | 0               | 0           |
| Currency/Interest Rate                                      | (3,715)                                  | 0                           | (37)            | 0           |
| Credit                                                      | (88)                                     | 0                           | 0               | 0           |
| Equity                                                      | (5,845)                                  | 0                           | 0               | 0           |
| Embedded Derivatives                                        | 1,254                                    | 0                           | 0               | 0           |
| Total non-qualifying hedges                                 | (172,883)                                | 0                           | (37)            | 0           |
| Total                                                       | \$ (172,883)                             | \$ 711                      | \$ (1,384)      | \$ (11,795) |

|                                                             | Six Months Ended June 30, 2015           |                             |                 |           |
|-------------------------------------------------------------|------------------------------------------|-----------------------------|-----------------|-----------|
|                                                             | Realized<br>Investment<br>Gains (Losses) | Net<br>Investment<br>Income | Other<br>Income | AOCI (1)  |
|                                                             | (in thousands)                           |                             |                 |           |
| Derivatives Designated as Hedge Accounting Instruments:     |                                          |                             |                 |           |
| Cash flow hedges                                            |                                          |                             |                 |           |
| Currency/Interest Rate                                      | \$ 0                                     | \$ 1,248                    | \$ (83)         | \$ 12,901 |
| Total cash flow hedges                                      | 0                                        | 1,248                       | (83)            | 12,901    |
| Derivatives Not Qualifying as Hedge Accounting Instruments: |                                          |                             |                 |           |
| Interest Rate                                               | (49,273)                                 | 0                           | 0               | 0         |
| Currency                                                    | 52                                       | 0                           | 0               | 0         |
| Currency/Interest Rate                                      | 4,551                                    | 0                           | 98              | 0         |
| Credit                                                      | (163)                                    | 0                           | 0               | 0         |
| Equity                                                      | (21,170)                                 | 0                           | 0               | 0         |
| Embedded Derivatives                                        | (50,159)                                 | 0                           | 0               | 0         |
| Total non-qualifying hedges                                 | (116,162)                                | 0                           | 98              | 0         |
| Total                                                       | \$ (116,162)                             | \$ 1,248                    | \$ 15           | \$ 12,901 |

(1) Amounts deferred in AOCI.

For the three and six months ended June 30, 2016 and 2015, the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company's results of operations. Also, there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

Presented below is a roll forward of current period cash flow hedges in “Accumulated other comprehensive income (loss)” before taxes:

|                                                                                 | (in thousands) |
|---------------------------------------------------------------------------------|----------------|
| Balance, December 31, 2015                                                      | \$ 48,271      |
| Net deferred gains (losses) on cash flow hedges from January 1 to June 30, 2016 | (7,356)        |
| Amounts reclassified into current period earnings                               | (2,772)        |
| Balance, June 30, 2016                                                          | \$ 38,143      |

Using June 30, 2016 values, it is estimated that a pre-tax loss of \$4 million will be reclassified from AOCI to earnings during the subsequent twelve months ending June 30, 2017, offset by amounts pertaining to the hedged items. As of June 30, 2016, the Company did not have any qualifying cash flow hedges of forecasted transactions other than those related to the variability of the payment or receipt of interest or foreign currency amounts on existing financial instruments. The maximum length of time for which these variable cash flows are hedged is 19 years. Income amounts deferred in AOCI as a result of cash flow hedges are included in “Net unrealized investment gains (losses)” within OCI in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

***Credit Derivatives***

The Company has no exposure from credit derivatives where it has written credit protection as of June 30, 2016 and December 31, 2015.

The Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company’s investment portfolio. As of both June 30, 2016 and December 31, 2015, the Company had \$7 million of outstanding notional amounts, reported at fair value as a liability of less than \$1 million as of June 30, 2016 and an asset of less than \$1 million as of December 31, 2015.

***Credit Risk***

The Company is exposed to credit-related losses in the event of non-performance by our counterparty to financial derivative transactions.

The Company has credit risk exposure to an affiliate, Prudential Global Funding, LLC (“PGF”), related to its OTC derivative transactions. PGF manages credit risk with external counterparties by entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties, and by obtaining collateral, such as cash and securities, when appropriate. Additionally, limits are set on single party credit exposures which are subject to periodic management review.

Under fair value measurements, the Company incorporates the market’s perception of its own and the counterparty’s non-performance risk in determining the fair value of the portion of its OTC derivative assets and liabilities that are uncollateralized. Credit spreads are applied to the derivative fair values on a net basis by counterparty. To reflect the Company’s own credit spread, a proxy based on relevant debt spreads is applied to OTC derivative net liability positions. Similarly, the Company’s counterparty’s credit spread is applied to OTC derivative net asset positions.

**6. COMMITMENTS, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS*****Commitments***

The Company has made commitments to fund commercial loans. As of June 30, 2016 and December 31, 2015, the outstanding balances on these commitments were \$64 million and \$62 million, respectively. The Company also made commitments to purchase or fund investments, mostly private fixed maturities. As of June 30, 2016 and December 31, 2015, \$121 million and \$52 million, respectively, of these commitments were outstanding.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)*****Contingent Liabilities***

On an ongoing basis, the Company's internal supervisory and control functions review the quality of sales, marketing and other customer interface procedures and practices and may recommend modifications or enhancements. From time to time, this review process results in the discovery of product administration, servicing or other errors, including errors relating to the timing or amount of payments or contract values due to customers. In certain cases, if appropriate, the Company may offer customers remediation and may incur charges, including the costs of such remediation, administrative costs and regulatory fines.

The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. For additional discussion of these matters, see "Litigation and Regulatory Matters" below.

It is possible that the results of operations or the cash flows of the Company in a particular quarterly or annual period could be materially affected as a result of payments in connection with the matters discussed above or other matters depending, in part, upon the results of operations or cash flows for such period. Management believes, however, that ultimate payments in connection with these matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company's financial position.

***Litigation and Regulatory Matters***

The Company is subject to legal and regulatory actions in the ordinary course of its business. Pending legal and regulatory actions include proceedings specific to the Company and proceedings generally applicable to business practices in the industry in which it operates. The Company is subject to class action lawsuits and other litigation involving a variety of issues and allegations involving sales practices, claims payments and procedures, premium charges, policy servicing and breach of fiduciary duty to customers. The Company is also subject to litigation arising out of its general business activities, such as its investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment, and could be exposed to claims or litigation concerning certain business or process patents. In addition, the Company, along with other participants in the businesses in which it engages, may be subject from time to time to investigations, examinations and inquiries, in some cases industry-wide, concerning issues or matters upon which such regulators have determined to focus. In some of the Company's pending legal and regulatory actions, parties are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established, but the matter, if material, is disclosed, including matters discussed below. The Company estimates that as of June 30, 2016, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than \$5.5 million. This estimate is not an indication of expected loss, if any, or the Company's maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

For a discussion of the Company's litigations and regulatory matters, see Note 11 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

***Summary***

The Company's litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that the Company's results of operations or cash flows in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flows for such period. In light of the unpredictability of the Company's litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company's financial position. Management believes, however, that, based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, is not likely to have a material adverse effect on the Company's financial position.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)****7. RELATED PARTY TRANSACTIONS**

The Company has extensive transactions and relationships with Prudential Insurance and other affiliates. Although we seek to ensure that these transactions and relationships are fair and reasonable, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

***Expense Charges and Allocations***

Many of the Company's expenses are allocations or charges from Prudential Insurance or other affiliates. These expenses can be grouped into general and administrative expenses and agency distribution expenses.

The Company's general and administrative expenses are charged to the Company using allocation methodologies based on business production processes. Management believes that the methodology is reasonable and reflects costs incurred by Prudential Insurance to process transactions on behalf of the Company. The Company operates under service and lease agreements whereby services of officers and employees, supplies, use of equipment and office space are provided by Prudential Insurance. The Company reviews its allocation methodology periodically which it may adjust accordingly. General and administrative expenses include allocations of stock compensation expenses related to a stock option program and a deferred compensation program issued by Prudential Financial. The expense charged to the Company for the stock option program was less than \$1 million for both the three months ended June 30, 2016 and 2015 and \$1 million and less than \$1 million for the six months ended June 30, 2016 and 2015, respectively. The expense charged to the Company for the deferred compensation program was \$2 million for both the three months ended June 30, 2016 and 2015 and \$3 million and \$4 million for the six months ended June 30, 2016 and 2015, respectively.

The Company is charged for its share of employee benefits expenses. These expenses include costs for funded and non-funded contributory and non-contributory defined benefit pension plans. Some of these benefits are based on final group earnings and length of service while others are based on an account balance, which takes into consideration age, service and earnings during career. The Company's share of net expense for the pension plans was \$6 million and \$5 million for the three months ended June 30, 2016 and 2015, respectively, and \$12 million and \$11 million for the six months ended June 30, 2016 and 2015, respectively.

The Company is also charged for its share of the costs associated with welfare plans issued by Prudential Insurance. These expenses include costs related to medical, dental, life insurance and disability. The Company's share of net expense for the welfare plans was \$7 million and \$6 million for the three months ended June 30, 2016 and 2015, respectively, and \$14 million and \$13 million for the six months ended June 30, 2016 and 2015, respectively.

Prudential Insurance sponsors voluntary savings plans for its employees' 401(k) plans. The plans provide for salary reduction contributions by employees and matching contributions by the Company of up to 4% of annual salary. The Company's expense for its share of the voluntary savings plan was \$3 million and \$2 million for the three months ended June 30, 2016 and 2015, respectively, and \$5 million and \$4 million for the six months ended June 30, 2016 and 2015, respectively.

The Company is charged distribution expenses from Prudential Insurance's agency network for both its domestic life and annuity products through a transfer pricing agreement, which is intended to reflect a market based pricing arrangement.

The Company pays commissions and certain other fees to Prudential Annuities Distributors, Inc. ("PAD") in consideration for PAD's marketing and underwriting of the Company's annuity products. Commissions and fees are paid by PAD to broker-dealers who sell the Company's products. Commissions and fees paid by the Company to PAD were \$190 million and \$211 million for the three months ended June 30, 2016 and 2015, respectively, and \$364 million and \$415 million for the six months ended June 30, 2016 and 2015, respectively.

***Corporate Owned Life Insurance***

The Company has sold five Corporate Owned Life Insurance ("COLI") policies to Prudential Insurance, and one to Prudential Financial. The cash surrender value included in separate accounts for these COLI policies was \$3,160 million at June 30, 2016 and \$2,873 million at December 31, 2015. Fees related to these COLI policies were \$10 million for both the three months ended June 30, 2016 and 2015 and \$21 million for both the six months ended June 30, 2016 and 2015. The Company retains the majority of the mortality risk associated with these COLI policies. In October 2013, the Company increased the maximum amount of mortality risk on any life to \$3.5 million for certain COLI policies.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)*****Derivative Trades***

In its ordinary course of business, the Company enters into OTC derivative contracts with an affiliate, PGF. For these OTC derivative contracts, PGF has a substantially equal and offsetting position with an external counterparty.

***Joint Ventures***

The Company has made investments in joint ventures with certain subsidiaries of Prudential Financial. "Other long-term investments" includes \$92 million as of June 30, 2016 and \$145 million as of December 31, 2015. "Net investment income" related to these ventures includes a gain of \$1.3 million for both the three months ended June 30, 2016 and 2015, and a loss of \$3 million and a gain of \$4 million for the six months ended June 30, 2016 and 2015, respectively.

***Reinsurance with Affiliates***

The Company participates in reinsurance with its affiliates Prudential Life Insurance Company of Taiwan Inc. ("Prudential of Taiwan"), Prudential Arizona Reinsurance Captive Company ("PARCC"), UPARC, Prudential Arizona Reinsurance Term Company ("PAR Term"), Prudential Arizona Reinsurance Universal Company ("PAR U"), Prudential Universal Reinsurance Company ("PURC"), Prudential Term Reinsurance Company ("Term Re"), PALAC, and its parent company Prudential Insurance, and participated in reinsurance with its affiliate Pruco Re through March 31, 2016, in order to provide risk diversification and additional capacity for future growth, limit the maximum net loss potential, manage the statutory capital for its individual life business, facilitate its capital market hedging program and align accounting methodology for the assets and liabilities of living benefit riders contained in annuities contracts. See Note 1 for additional information on the change effective April 1, 2016. Life reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term and coinsurance. Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. The Company believes a material reinsurance liability resulting from such inability of reinsurers to meet their obligations is unlikely.

On January 2, 2013, the Company began to assume Guaranteed Universal Life ("GUL") business from Prudential Insurance in connection with the acquisition of the Hartford Life Business. The GUL business assumed from Prudential Insurance was subsequently retroceded to PAR U. Collectively, reinsurance of this GUL business does not have a material impact on the equity of the Company.

Reserves related to reinsured long duration contracts are accounted for using assumptions consistent with those used to account for the underlying contracts. Amounts recoverable from reinsurers, for long duration reinsurance arrangements, are estimated in a manner consistent with the claim liabilities and policy benefits associated with the reinsured policies. Reinsurance premiums ceded for universal life products are accounted for as a reduction of policy charges and fee income. Reinsurance premiums ceded for term insurance products are accounted for as a reduction of premiums.

Realized investment gains and losses include the impact of reinsurance agreements. The Company has entered into reinsurance agreements to transfer the risk related to the living benefit options on variable annuities to PALAC excluding the PLNJ business which was reinsured to Prudential Insurance. See Note 1 for additional information on the change effective April 1, 2016. The Company has also entered into an agreement with UPARC to reinsure a portion of the no-lapse guarantee provision on certain universal life products. These reinsurance agreements are derivatives and have been accounted for in the same manner as embedded derivatives and the changes in the fair value of these derivatives are recognized through "Realized investment gains (losses), net". See Note 5 for additional information related to the accounting for embedded derivatives.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

Reinsurance amounts included in the Company's Unaudited Interim Consolidated Statements of Financial Position as of June 30, 2016 and December 31, 2015 were as follows:

|                                                           | <u>June 30, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------------------------------------|----------------------|--------------------------|
|                                                           | (in thousands)       |                          |
| Reinsurance recoverables                                  | \$ 30,853,161        | \$ 22,546,361            |
| Policy loans                                              | (80,616)             | (75,697)                 |
| Deferred policy acquisition costs                         | (5,680,833)          | (2,122,349)              |
| Other assets                                              | (288,337)            | 35,616                   |
| Policyholders' account balances                           | 4,929,689            | 5,020,230                |
| Future policy benefits and other policyholder liabilities | 2,947,810            | 2,380,215                |
| Other liabilities                                         | 330,835              | 494,660                  |

The reinsurance recoverable by counterparty is broken out below.

|                                | <u>June 30, 2016</u> | <u>December 31, 2015</u> |
|--------------------------------|----------------------|--------------------------|
|                                | (in thousands)       |                          |
| UPARC                          | \$ 519,245           | \$ 376,660               |
| PAR U                          | 10,207,953           | 9,797,733                |
| PURC                           | 2,410,583            | 2,251,692                |
| PARCC                          | 2,574,933            | 2,560,798                |
| PAR Term                       | 1,310,695            | 1,226,761                |
| Term Re                        | 457,306              | 298,002                  |
| Prudential Insurance           | 1,265,759            | 226,926                  |
| Pruco Re                       | —                    | 4,594,412                |
| Prudential of Taiwan           | 1,219,785            | 1,169,664                |
| PALAC                          | 10,802,564           | —                        |
| Unaffiliated                   | 84,338               | 43,713                   |
| Total reinsurance recoverables | <u>\$ 30,853,161</u> | <u>\$ 22,546,361</u>     |

The tables above include amounts related to the Variable Annuities Recapture effective April 1, 2016, as described in Note 1.

Reinsurance amounts included in the Company's Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015 were as follows:

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

|                                                                            | Three Months Ended June 30, |             | Six Months Ended June 30, |             |
|----------------------------------------------------------------------------|-----------------------------|-------------|---------------------------|-------------|
|                                                                            | 2016                        | 2015        | 2016                      | 2015        |
|                                                                            | (in thousands)              |             |                           |             |
| Premiums:                                                                  |                             |             |                           |             |
| Direct                                                                     | \$ 408,518                  | \$ 383,312  | \$ 799,698                | \$ 749,555  |
| Assumed                                                                    | 1                           | —           | 149                       | —           |
| Ceded                                                                      | (1,260,611)                 | (359,830)   | (1,634,024)               | (710,436)   |
| Net premiums                                                               | (852,092)                   | 23,482      | (834,177)                 | 39,119      |
| Policy charges and fee income:                                             |                             |             |                           |             |
| Direct                                                                     | 509,535                     | 694,126     | 1,244,512                 | 1,426,691   |
| Assumed                                                                    | 109,910                     | (13,919)    | 304,223                   | 155,292     |
| Ceded                                                                      | (577,597)                   | (150,174)   | (979,480)                 | (511,185)   |
| Net policy charges and fee income                                          | 41,848                      | 530,033     | 569,255                   | 1,070,798   |
| Net investment income:                                                     |                             |             |                           |             |
| Direct                                                                     | 79,518                      | 102,306     | 185,656                   | 206,354     |
| Assumed                                                                    | 351                         | 364         | 695                       | 693         |
| Ceded                                                                      | (1,250)                     | (1,184)     | (2,280)                   | (2,141)     |
| Net investment income                                                      | 78,619                      | 101,486     | 184,071                   | 204,906     |
| Other income:                                                              |                             |             |                           |             |
| Direct                                                                     | 12,077                      | 12,841      | 23,772                    | 25,152      |
| Assumed & Ceded                                                            | (20,676)                    | 2,172       | (18,849)                  | 7,078       |
| Net other income                                                           | (8,599)                     | 15,013      | 4,923                     | 32,230      |
| Interest credited to policyholders' account balances:                      |                             |             |                           |             |
| Direct                                                                     | 105,629                     | 73,790      | 319,111                   | 216,195     |
| Assumed                                                                    | 31,583                      | 32,790      | 65,418                    | 61,615      |
| Ceded                                                                      | (109,236)                   | (58,337)    | (170,122)                 | (112,090)   |
| Net interest credited to policyholders' account balances                   | 27,976                      | 48,243      | 214,407                   | 165,720     |
| Policyholders' benefits (including change in reserves):                    |                             |             |                           |             |
| Direct                                                                     | 342,039                     | 466,298     | 951,674                   | 952,425     |
| Assumed                                                                    | 211,698                     | (12,799)    | 472,575                   | 223,085     |
| Ceded                                                                      | (984,174)                   | (396,233)   | (1,756,158)               | (1,059,843) |
| Net policyholders' benefits (including change in reserves)                 | (430,437)                   | 57,266      | (331,909)                 | 115,667     |
| Realized investment gains (losses), net:                                   |                             |             |                           |             |
| Direct                                                                     | (1,228,076)                 | 2,834,402   | (2,762,428)               | 2,167,967   |
| Assumed                                                                    | 39                          | —           | —                         | —           |
| Ceded                                                                      | 2,088,499                   | (3,005,058) | 3,678,041                 | (2,279,598) |
| Realized investment gains (losses), net                                    | 860,462                     | (170,656)   | 915,613                   | (111,631)   |
| Net reinsurance expense allowances, net of capitalization and amortization | (443,316)                   | (17,371)    | (537,245)                 | (87,083)    |

The table above includes amounts related to the Variable Annuities Recapture effective April 1, 2016, as described in Note 1.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

The gross and net amounts of life insurance face amount in force as of June 30, 2016 and 2015 were as follows:

|                                                   | June 30, 2016  | June 30, 2015  |
|---------------------------------------------------|----------------|----------------|
|                                                   | (in thousands) |                |
| Direct gross life insurance face amount in force  | \$ 799,112,347 | \$ 739,363,094 |
| Assumed gross life insurance face amount in force | 43,205,999     | 44,015,996     |
| Reinsurance ceded                                 | (779,268,303)  | (722,711,390)  |
| Net life insurance face amount in force           | \$ 63,050,043  | \$ 60,667,700  |

**UPARC**

Through June 30, 2011, the Company, excluding its subsidiaries, reinsured Universal Protector policies having no-lapse guarantees with UPARC, an affiliated company. UPARC reinsured an amount equal to 90% of the net amount at risk related to the first \$1 million in face amount plus 100% of the net amount at risk related to the face amount in excess of \$1 million as well as 100% of the risk of uncollectible policy charges and fees associated with the no-lapse guarantee provision of these policies.

Effective July 1, 2011, the agreement between the Company and UPARC to reinsure Universal Protector policies having no-lapse guarantees was amended for policies with effective dates prior to January 1, 2011. Under the amended agreement, UPARC reinsures an amount equal to 27% of the net amount at risk related to the first \$1 million in face amount plus 30% of the net amount at risk related to the face amount in excess of \$1 million as well as 30% of the risk of uncollectible policy charges and fees associated with the no-lapse guarantee provision of these policies. During the first quarter of 2013, the agreement between the Company and UPARC was further amended to revise language relating to the consideration due to the Company.

Effective July 1, 2013 the agreement between the Company and UPARC to reinsure Universal Protector policies having no-lapse guarantees was amended for policies with effective dates January 1, 2011 through December 31, 2012. Under the amended agreement, UPARC reinsures an amount equal to 27% of the net amount at risk related to the first \$1 million in face amount plus 30% of the net amount at risk related to the face amount in excess of \$1 million as well as 30% of the risk of uncollectible policy charges and fees associated with the no-lapse guarantee provision of these policies.

Effective January 1, 2014, the agreement between the Company and UPARC to reinsure Universal Protector policies having no-lapse guarantees was amended for policies with effective dates on or after January 1, 2014. Under the amended agreement, UPARC will no longer reinsure Universal Protector policies having no-lapse guarantees.

Effective July 1, 2014, the agreement between the Company and UPARC to reinsure Universal Protector policies having no-lapse guarantees was further amended for policies with effective dates January 1, 2013 through December 31, 2013. Under the amended agreement, UPARC reinsures an amount equal to 27% of the net amount at risk related to the first \$1 million in face amount plus 30% of the net amount at risk related to the face amount in excess of \$1 million as well as 30% of the risk of uncollectible policy charges and fees associated with the no-lapse guarantee provision of these policies.

**PAR U**

Effective July 1, 2011, the Company, excluding its subsidiaries, entered into an automatic coinsurance agreement with PAR U, an affiliated company, to reinsure an amount equal to 70% of all the risks associated with Universal Protector policies having no-lapse guarantees as well as Universal Plus policies, with effective dates prior to January 1, 2011. During the first quarter of 2013, the agreement between the Company, excluding its subsidiaries, and PAR U was amended to revise language relating to the consideration due to PAR U.

Effective July 1, 2012, the Company's wholly-owned subsidiary, PLNJ, entered into an automatic coinsurance agreement with PAR U, to reinsure an amount equal to 95% of all the risks associated with universal life policies. During the fourth quarter of 2012, the agreement between PLNJ and PAR U was amended to revise language relating to the consideration due to PAR U.

On January 2, 2013, the Company began to assume GUL business from Prudential Insurance in connection with the acquisition of the Hartford Life Business. The GUL business assumed from Prudential Insurance was subsequently retroceded to PAR U. Collectively, reinsurance of the GUL business does not have a material impact on the equity of the Company.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**

Effective July 1, 2013, the agreement between the Company, excluding its subsidiaries, and PAR U was amended for policies with effective dates from January 1, 2011 through December 31, 2012. Under the amended agreement, PAR U reinsures an amount equal to 70% of all the risks associated with Universal Protector policies having no lapse guarantees as well as Universal Plus policies, with effective dates from January 1, 2011 through December 31, 2012 in addition to policies covered by the initial reinsurance agreement discussed above.

Effective October 1, 2013, the Company entered into an Assumption and Novation Agreement with PAR U and PURC, an affiliated company. Under this agreement, PAR U novates, assigns, and transfers to PURC all of its rights, title, interests, duties, obligations, and liabilities under the aforementioned amendment entered into on July 1, 2013. PURC will succeed PAR U and become the counterparty to the Company with respect to the novated business pursuant to the Novated Coinsurance Agreement (the “PURC Novated Coinsurance Agreement”). There is no financial impact to the Company as a result of this transaction.

**PURC**

The Company, excluding its subsidiaries, reinsures an amount equal to 70% of all the risks associated with Universal Protector policies having no lapse guarantees as well as Universal Plus policies, with effective dates from January 1, 2011 through December 31, 2012 with PURC pursuant to the PURC Novated Coinsurance Agreement (as defined in “PAR U” above).

Effective January 1, 2014, the Company, excluding its subsidiaries, entered into an automatic coinsurance agreement with PURC to reinsure an amount equal to 95% of all the risks associated with Universal Protector policies having no-lapse guarantees, as well as Universal Plus policies, with effective dates on or after January 1, 2014.

Effective July 1, 2014, the agreement between the Company, excluding its subsidiaries, and PURC was amended to reinsure policies with effective dates from January 1, 2013 through December 31, 2013. Under the amended agreement, PURC reinsures an amount equal to 70% of all the risks associated with Universal Protector policies having no lapse guarantees as well as Universal Plus policies in addition to policies initially covered by the PURC Novated Coinsurance Agreement.

**PARCC**

The Company reinsures 90% of the risks under its term life insurance policies, with effective dates prior to January 1, 2010, through an automatic coinsurance agreement with PARCC.

**PAR Term**

The Company reinsures 95% of the risks under its term life insurance policies with effective dates January 1, 2010 through December 31, 2013, through an automatic coinsurance agreement with PAR Term.

**Term Re**

The Company reinsures 95% of the risks under its term life insurance policies with effective dates on or after January 1, 2014 through an automatic coinsurance agreement with Term Re.

**Prudential Insurance**

The Company has a yearly renewable term reinsurance agreement with Prudential Insurance and reinsures the majority of all mortality risks not otherwise reinsured.

On January 2, 2013, the Company began to assume GUL business from Prudential Insurance in connection with the acquisition of the Hartford Life Business. The GUL business assumed from Prudential Insurance was subsequently retroceded to PAR U. Collectively, reinsurance of this GUL business does not have a material impact on the equity of the Company.

The Company has reinsured a group annuity contract with Prudential Insurance, in consideration for a single premium payment by the Company, providing reinsurance equal to 100% of all payments due under the contract.

Effective April 1, 2016, the Company's subsidiary PLNJ has entered into a reinsurance agreement with Prudential Insurance to reinsure its variable annuity base contracts, along with the living benefit riders. See Note 1 for additional information.

**PRUCO LIFE INSURANCE COMPANY****Notes to Unaudited Interim Consolidated Financial Statements—(Continued)****Pruco Re**

Through March 31, 2016, the Company entered into various automatic coinsurance agreements with Pruco Re, an affiliated company, to reinsure its living benefit features sold on certain of its annuities. See Note 1 for additional information on the change effective April 1, 2016.

**PALAC**

Effective April 1, 2016, the Company entered into a reinsurance agreement with PALAC, to reinsure its variable annuity base contracts, along with the living benefit riders, excluding business reinsured externally and the PLNJ business which was reinsured to Prudential Insurance. See Note 1 for additional information.

**Taiwan Branch Reinsurance Agreement**

On January 31, 2001, the Company transferred all of its assets and liabilities associated with its Taiwan branch, including its Taiwan insurance book of business, to Prudential of Taiwan, an affiliated company.

The mechanism used to transfer this block of business in Taiwan is referred to as a “full acquisition and assumption” transaction. Under this mechanism, the Company is jointly liable with Prudential of Taiwan for two years from the giving of notice to all obligees for all matured obligations and for two years after the maturity date of not-yet-matured obligations. Prudential of Taiwan is also contractually liable, under indemnification provisions of the transaction, for any liabilities that may be asserted against the Company.

The transfer of the insurance related assets and liabilities was accounted for as a long-duration coinsurance transaction under U.S. GAAP. Under this accounting treatment, the insurance related liabilities remain on the books of the Company and an offsetting reinsurance recoverable is established. These assets and liabilities are denominated in U.S. dollars.

***Affiliated Asset Administration Fee Income***

The Company has a revenue sharing agreement with AST Investment Services, Inc. ("ASTISI") and Prudential Investments LLC ("Prudential Investments") whereby the Company receives fee income calculated on contractholder separate account balances invested in the Advanced Series Trust. Income received from ASTISI and Prudential Investments related to this agreement was \$73 million and \$98 million for the three months ended June 30, 2016 and 2015, respectively, and \$142 million and \$193 million for the six months ended June 30, 2016 and 2015, respectively. These revenues are recorded as “Asset administration fees” in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company has a revenue sharing agreement with Prudential Investments, whereby the Company receives fee income based on contractholders’ separate account balances invested in The Prudential Series Fund. Income received from Prudential Investments related to this agreement was \$3 million for both the three months ended June 30, 2016 and 2015, and \$6 million for both the six months ended June 30, 2016 and 2015. These revenues are recorded as “Asset administration fees” in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

***Affiliated Investment Management Expenses***

In accordance with an agreement with PGIM, Inc. ("PGIM"), the Company pays investment management expenses to PGIM who acts as investment manager to certain Company general account and separate account assets. Investment management expenses paid to PGIM related to this agreement were \$4 million for both the three months ended June 30, 2016 and 2015, and \$9 million and \$8 million for the six months ended June 30, 2016 and 2015, respectively. These expenses are recorded as “Net investment income” in the Unaudited Interim Consolidated Statements of Operations and Comprehensive Income (Loss).

## PRUCO LIFE INSURANCE COMPANY

## Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

*Affiliated Asset Transfers*

From time to time, the Company participates in affiliated asset trades with parent and sister companies. Book and market value differences for trades with a parent and sister are recognized within "Additional paid-in capital" ("APIC") and "Realized investment gains (losses), net", respectively. The table below shows affiliated asset trades for the six months ended June 30, 2016 and for the year ended December 31, 2015, excluding those related to the Variable Annuities Recapture effective April 1, 2016, as described in Note 1.

| Affiliate            | Date     | Transaction | Security Type                             | Fair Value | Book Value | APIC, Net of Tax Increase/(Decrease) | Realized Investment Gain/(Loss), Net | Derivative Gain/(Loss) |
|----------------------|----------|-------------|-------------------------------------------|------------|------------|--------------------------------------|--------------------------------------|------------------------|
| (in millions)        |          |             |                                           |            |            |                                      |                                      |                        |
| Prudential Insurance | March-15 | Purchase    | Fixed Maturities & Trading Account Assets | \$ 92      | \$ 74      | \$ (12)                              | \$ 0                                 | \$ 0                   |
| Prudential Insurance | June-15  | Purchase    | Fixed Maturities                          | \$ 11      | \$ 10      | \$ (1)                               | \$ 0                                 | \$ 0                   |
| Prudential Insurance | March-16 | Sale        | Fixed Maturities & Short-Term Investments | \$ 89      | \$ 89      | \$ (1)                               | \$ 0                                 | \$ 0                   |

**PRUCO LIFE INSURANCE COMPANY**
**Notes to Unaudited Interim Consolidated Financial Statements—(Continued)**
**Debt Agreements**

The Company is authorized to borrow funds up to \$2.2 billion from affiliates to meet its capital and other funding needs. In April 2016, the Company prepaid \$125 million of its debt and reassigned all the remaining debt to PALAC as part of its reinsurance agreement. See Note 1 for additional information on the reassignment effective April 1, 2016. The following table provides the breakout of the Company's short-term and long-term debt with affiliates:

| Affiliate                         | Date Issued | Amount of Notes - June 30, 2016 | Amount of Notes - December 31, 2015 | Interest Rate | Date of Maturity        |
|-----------------------------------|-------------|---------------------------------|-------------------------------------|---------------|-------------------------|
| (in thousands)                    |             |                                 |                                     |               |                         |
| Prudential Financial              | 12/15/2011  | \$ 0                            | \$ 11,000                           | 3.61%         | 12/15/2016              |
| Prudential Financial              | 12/16/2011  | 0                               | 11,000                              | 3.61%         | 12/16/2016              |
| Prudential Financial              | 11/15/2013  | 0                               | 9,000                               | 2.24%         | 12/15/2018              |
| Prudential Financial              | 11/15/2013  | 0                               | 23,000                              | 3.19%         | 12/15/2020              |
| Prudential Insurance              | 12/6/2013   | 0                               | 120,000                             | 2.60%         | 12/15/2018              |
| Prudential Insurance              | 12/6/2013   | 0                               | 130,000                             | 4.39%         | 12/15/2023              |
| Prudential Insurance              | 12/6/2013   | 0                               | 250,000                             | 3.64%         | 12/15/2020              |
| Prudential Insurance              | 9/25/2014   | 0                               | 30,000                              | 1.89%         | 6/20/2017               |
| Prudential Insurance              | 9/25/2014   | 0                               | 40,000                              | 3.95%         | 6/20/2024               |
| Prudential Insurance              | 9/25/2014   | 0                               | 20,000                              | 2.80%         | 6/20/2019               |
| Prudential Insurance              | 9/25/2014   | 0                               | 50,000                              | 3.95%         | 6/20/2024               |
| Prudential Insurance              | 9/25/2014   | 0                               | 50,000                              | 2.80%         | 6/20/2019               |
| Prudential Insurance              | 9/25/2014   | 0                               | 100,000                             | 3.47%         | 6/20/2021               |
| Prudential Insurance              | 9/25/2014   | 0                               | 100,000                             | 3.95%         | 6/20/2024               |
| Prudential Financial              | 12/15/2014  | 0                               | 5,000                               | 2.57%         | 12/15/2019              |
| Prudential Financial              | 12/15/2014  | 0                               | 23,000                              | 3.14%         | 12/15/2021              |
| Prudential Financial              | 6/15/2015   | 0                               | 66,000                              | 3.52%         | 6/15/2022               |
| Prudential Financial              | 6/15/2015   | 0                               | 6,000                               | 2.86%         | 6/15/2020               |
| Prudential Financial              | 9/21/2015   | 0                               | 158,000                             | 1.09% - 1.63% | 6/15/2016 - 6/15/2017   |
| Prudential Financial              | 9/21/2015   | 0                               | 132,000                             | 1.40% - 1.93% | 12/17/2016 - 12/17/2017 |
| Prudential Financial              | 9/21/2015   | 0                               | 26,000                              | 1.40% - 1.93% | 12/17/2016 - 12/17/2017 |
| Prudential Financial              | 12/16/2015  | 0                               | 5,000                               | 2.85%         | 12/16/2020              |
| Prudential Financial              | 12/16/2015  | 0                               | 1,000                               | 2.85%         | 12/16/2020              |
| Prudential Financial              | 12/16/2015  | 0                               | 18,000                              | 3.37%         | 12/16/2022              |
| Total Loans Payable to Affiliates |             | \$ 0                            | \$ 1,384,000                        |               |                         |

The total interest expense to the Company related to loans payable to affiliates was \$2 million and \$13 million for the three months ended June 30, 2016 and 2015, respectively, and \$13 million and \$26 million for the six months ended June 30, 2016 and 2015, respectively.

**Contributed Capital and Dividends**

In June and March of 2016, the Company received capital contributions in the amounts of \$200 million and \$5 million, respectively, from Prudential Insurance. For the year ended December 31, 2015, the Company did not receive any capital contributions.

During the six months ended June 30, 2016, the Company paid dividends in the amount of \$2.6 billion to Prudential Insurance. In June and December of 2015, the Company paid dividends in the amounts of \$230 million and \$200 million, respectively, to Prudential Insurance.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") addresses the consolidated financial condition of Pruco Life Insurance Company, or the "Company," as of June 30, 2016, compared with December 31, 2015, and its consolidated results of operations for the three and six months ended June 30, 2016 and 2015. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the "Risk Factors" section, and the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as well as the statements under "Forward-Looking Statements" and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.*

**Overview**

The Company sells variable and fixed annuities, universal life insurance, variable life insurance and term life insurance primarily through affiliated and unaffiliated distributors in the United States.

**Variable Annuities Recapture**

Through March 31, 2016, the Company reinsured the majority of its variable annuity living benefit guarantees to its affiliated company, Pruco Reinsurance, Ltd. ("Pruco Re"), in order to facilitate the capital markets hedging program for these living benefit guarantees. Effective April 1, 2016, the Company recaptured the risks related to its variable annuity living benefit guarantees that were previously reinsured to Pruco Re. In addition, the Company reinsured variable annuity base contracts, along with the living benefit guarantees, to Prudential Annuities Life Assurance Corporation ("PALAC"), excluding the Pruco Life Insurance Company of New Jersey ("PLNJ") business which was reinsured to The Prudential Insurance Company of America ("Prudential Insurance"). These reinsurance agreements cover new and in force business and exclude business reinsured externally. The product risks related to the reinsured business are being managed in PALAC and Prudential Insurance. In addition, the living benefit hedging program related to the reinsured living benefit guarantees is being managed within PALAC and Prudential Insurance. These series of transactions are collectively referred to as the "Variable Annuities Recapture."

**Regulatory Developments***Capital and Prudential Standards*

In June 2016, the Board of Governors of the Federal Reserve System ("FRB") issued an advance notice of proposed rulemaking regarding approaches to regulatory capital requirements for institutions supervised by the FRB that are significantly engaged in insurance activities, including non-bank financial companies ("Designated Financial Companies") supervised by the FRB under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), such as Prudential Financial, Inc. ("Prudential Financial"). The advance notice invites comments on a "building block approach" and a "consolidated approach" for determining capital requirements, including which approach is appropriate for Designated Financial Companies. The building block approach would aggregate capital resources and requirements across different legal entities to calculate combined qualifying and required capital for the insurance group. The consolidated approach would categorize insurance liabilities, assets and certain other exposures into risk segments, determine consolidated required capital by applying risk factors to the amounts in each segment, define qualifying capital for the consolidated firm, and then compare consolidated qualifying capital to consolidated required capital. The building block approach and the consolidated approach as described in the advance notice of proposed rulemaking are high level concepts for capital standards, and will ultimately need to be defined in detail in any final standards. The comment period for the advance notice closes on September 16, 2016.

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

We cannot predict the timing of the issuance or content of final capital requirements or enhanced prudential standards or how the FRB ultimately will apply the final requirements to Prudential Financial. For additional information on FRB supervision, see "Business-Regulation-Dodd-Frank Wall Street Reform and Consumer Protection Act-Regulation as a Designated Financial Company" in our Annual Report on Form 10-K for the year ended December 31, 2015.

### *Principles Based Reserving*

In June 2016, the National Association of Insurance Commissioners (the “NAIC”) adopted a recommendation that will activate a principles-based reserving approach for life insurance products. Principles-based reserving replaces the reserving methods for life insurance products for which the current formulaic basis for reserves may not fully reflect the risks or costs of the liability or obligations of the insurer. The principles-based reserving approach has a three year phase in period. At the Company's discretion, it may be applied to new individual life business beginning as early as January 1, 2017, and must be applied for all new individual life business issued January 1, 2020 and later. Principles-based reserving will not affect reserves for policies in force prior to January 1, 2017. The Company is currently assessing the impact of this new reserving approach on projected statutory reserve levels and product pricing for its portfolio of individual life product offerings.

### *DOL Fiduciary Rule*

In April 2016, the U.S. Department of Labor (“DOL”) issued a final regulation accompanied by new class exemptions and amendments to long-standing exemptions from the prohibited transaction provisions under the Employee Retirement Income Security Act (“ERISA”) (collectively, the “Rules”), with implementation beginning in April 2017, and compliance with certain additional provisions required by January 2018. The Rules redefine who will be considered a “fiduciary” for purposes of transactions with qualified plans, plan participants and Individual Retirement Accounts (“IRAs”), and generally provide that advice to a plan participant or IRA owner will be treated as a fiduciary activity. We are analyzing the Rules’ impact on our operations and preparing to implement the necessary adjustments to come into alignment with the Rules’ requirements. Overall, we believe the Rules will result in increased compliance costs and may create increased exposure to legal claims under certain circumstances, including class actions. We believe the Rules will primarily impact our individual annuities business and our Prudential Advisors distribution system, which we include in the results of our individual life business. During the second quarter of 2016 several financial services industry groups initiated litigation challenging the Rules on both procedural and substantive grounds. The outcome of these litigations may alter whether and how some or all of the Rules are applied to our businesses. Significant aspects of the Rules and their impact on our businesses include the following:

- **Prudential Advisors:** We are taking the steps we believe are required to comply with the new “best interest contract exemption” for investment advice concerning retirement plans and IRAs including recommendations to purchase products sold to IRAs, which constitutes a significant part of Prudential Advisors’ non-life insurance new business revenues. The Rules state that proprietary products may be sold to IRA owners if certain conditions are met, subject to significant new requirements for this type of sale, which we continue to review. The Rules will impose compliance and contract requirements and would give customers a new private right of action for breach of contract that in some circumstances may result in damages and liability under ERISA and the Internal Revenue Code for excise taxes, disgorgement of profit, and other possible remedies. The Rules are expected to lead to changes to compensation and benefit structures, and possibly to our product offerings.
- **Annuities:** Sales of variable annuities by our retail distributors will be subject to the best interest contract exemption described above, but certain fixed annuities will be subject to a separate exemption. As a result of the Rules, certain distributors may restrict the sale of annuities. In addition, we may need to alter our product design or offerings to meet the needs of distributors in complying with the Rules. We may also need to monitor or limit wholesaling and other sales support and customer service activities if we do not want to be considered a fiduciary under the Rules.

For additional information on the potential impacts of regulation on the Company see “Business-Regulation” and “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

### **Revenues and Expenses**

The Company earns revenues principally from insurance premiums, mortality and expense fees, asset administration fees from insurance and investment products, and from net investment income on the investment of general account and other funds. The Company earns premiums primarily from the sale of individual life insurance and annuity products. The Company earns mortality and expense fees and asset administration fees primarily from the sale and servicing of universal life insurance and separate account products including variable life insurance and variable annuities. The Company’s operating expenses principally consist of insurance benefits provided and reserves established for anticipated future insurance benefits, general business expenses, commissions and other costs of selling and servicing the various products sold and interest credited on general account liabilities.

Effective February 25, 2013, the Advanced Series Trust (“AST”) adopted a Rule 12b-1 Plan under the Investment Company Act of 1940 with respect to most of the AST portfolios that are offered through the Company’s variable annuity and variable life insurance products. Under the Rule 12b-1 Plan, AST pays an affiliate of the Company for distribution and administrative services.

In June 2015, AST received shareholder approval to amend the Rule 12b-1 Plan. Effective July 1, 2015, there was an increase in the amount AST pays the Company's affiliate for distribution and administrative services. However, there was also a reduction in management fees. In addition, due to the revised Rule 12b-1 Plan, the asset administration fees received by the Company from AST Investment Services, Inc., and related distribution expenses of the Company, have decreased.

## **Profitability**

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

See "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of risks that have materially affected and may affect in the future the Company's business, results of operations or financial condition, or cause the Company's actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company.

## **Products**

### *Individual Annuities*

The Company offers a wide array of annuities, including variable annuities with (1) fixed interest rate allocation options, subject to a market value adjustment, that are registered with the United States Securities and Exchange Commission (the "SEC") and (2) fixed-rate allocation options not subject to a market value adjustment and not registered with the SEC. The Company also offers fixed annuitization options during the payout phase of its variable annuities.

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 death and living benefits (including versions with enhanced guaranteed minimum death benefits) and annuitization options. The majority of our currently sold contracts include an optional living benefit guarantee which provides, among other features, the ability to make withdrawals based on the highest daily contract value plus a specified return, credited for a period of time. This 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.

The Prudential Premier® Retirement Variable Annuity with Highest Daily Lifetime Income ("HDI") v. 3.0 offers lifetime income based on the highest daily account value plus a compounded deferral credit. The Prudential Defined Income ("PDI") Variable Annuity complements other variable annuity products that we offer with the highest daily benefit. PDI provides guaranteed lifetime withdrawal payments, but restricts contractholder investments to a single bond sub-account within the separate account. PDI includes a living benefit guarantee which provides for a specified lifetime income withdrawal rate applied to the initial premium paid, subject to daily roll-up increases until lifetime withdrawals commence, but does not have the highest daily feature.

We also offer annuities without guaranteed living benefits. We offer the Prudential Premier® Investment Variable Annuity, which offers tax-deferred asset accumulation, annuitization options and an optional death benefit that guarantees the contractholder's beneficiary a return of the greater of account value or 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 mutual funds managed by our affiliates ("proprietary") or a mix of proprietary and non-proprietary mutual funds, frequently under asset allocation programs. Certain products also allow or require allocation to fixed-rate accounts that are backed by investments 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 allocation in the fixed rate account or contract is not held to maturity.

In addition, most contracts also guarantee the contractholders' beneficiary a return of the greater of account value or total purchase payments made to the contract, adjusted for any partial withdrawals, upon death. Certain in force 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.

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, interest rates, market volatility, contractholder longevity/mortality, timing and amount of annuitization and withdrawals, withdrawal efficiency and contract lapses. The return we realize from our variable annuity contracts will vary based on the extent of the differences between our actual experience and the assumptions used in the original pricing of these products. Our returns can also vary due to the impact and effectiveness of our hedging programs for any capital markets movements that we may hedge, the impact of affiliated reinsurance, the impact of that portion of our variable annuity contracts with an asset transfer feature, the impact of risks we have retained and the impact of risks that are not able to be hedged.

Our risk management strategy helps to limit our exposure to certain of these risks primarily through a combination of product design elements, our living benefits hedging program and affiliated reinsurance arrangements. In addition, we consider external reinsurance a form of risk mitigation. Effective April 1, 2015, we entered into an agreement with Union Hamilton Reinsurance, Ltd. ("Union Hamilton"), an external counterparty, to reinsure approximately 50% of the HDI v. 3.0, the newest version of our variable annuity with a "highest daily" living benefits guarantee. This reinsurance agreement covers most new HDI v. 3.0 variable annuity business issued between April 1, 2015 and December 31, 2016 on a quota share basis, until Union Hamilton's quota share reaches \$5 billion of new rider premiums through December 31, 2016. From April 1, 2015 through June 30, 2016, approximately \$2.3 billion of new rider premiums were ceded to Union Hamilton under this agreement.

The product design elements we utilize for certain products include, among others, asset allocation restrictions, minimum issuance age requirements, monthly rate setting, certain limitations on the amount of premiums accepted and/or subsequent contractholder deposits and an asset transfer feature, as well as required allocation to our general account for certain of our products. The objective of the asset transfer feature, included in the majority of our variable annuity contracts with optional living benefits features and all new contracts sold with our highest daily living benefits feature, is to help mitigate our exposure to equity market risk and market volatility by transferring assets between certain variable investment sub-accounts selected by the annuity contractholder, and investments that are expected to be more stable (e.g., a bond fund sub-account within the separate account or a fixed-rate account within the general account). The transfers are based on the static mathematical formula used with the particular optional benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder's total account value. This occurs at the contractholder level, rather than at the fund level, which we believe enhances our risk mitigation.

As of June 30, 2016, approximately \$93 billion or 91% of total variable annuity account values contain a living benefit feature, compared to approximately \$90 billion or 91% as of December 31, 2015. As of June 30, 2016, approximately \$83 billion or 89% of variable annuity account values with living benefit features included an asset transfer feature in the product design, compared to approximately \$81 billion or 91% as of December 31, 2015. The change in account values with living benefits and the asset transfer feature reflect the impact of new business sales and equity market performance.

As mentioned above, in addition to our asset transfer feature, we manage certain risks associated with our variable annuity products through our living benefits hedging programs and affiliated and unaffiliated reinsurance agreements. Through March 31, 2016, we reinsured the majority of our variable annuity living benefit guarantees to an affiliated reinsurance company, Pruco Re. The living benefits hedging program was primarily executed within Pruco Re to manage capital markets risk associated with the reinsured living benefit guarantees. Effective April 1, 2016, the Company recaptured the risks related to its variable annuity living benefit guarantees that were previously reinsured to Pruco Re. In addition, the Company reinsured the variable annuity base contracts, along with the living benefit guarantees, to PALAC, excluding PLNJ business which was reinsured to Prudential Insurance. This reinsurance agreement covers new and in force business and excludes business reinsured externally. The product risks related to the business reinsured to PALAC are being managed in PALAC and the product risks related to the business reinsured to Prudential Insurance are being managed in Prudential Insurance. In addition, the living benefits hedging program related to the reinsured living benefit guarantees is being managed within PALAC or Prudential Insurance, as applicable. During the third quarter of 2016, PALAC and Prudential Insurance began modifying their hedging strategy in order to more efficiently manage capital and liquidity associated with these products while continuing to mitigate fluctuations in net income due to capital market movements, within established tolerances. These modifications include utilizing a combination of traditional fixed income instruments and derivatives to manage the risks associated with our variable annuity living benefit guarantees.

### *Term Life Insurance*

The Company offers a variety of term life insurance products, which represent 66% of our net individual life insurance in force at June 30, 2016, 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. The Company also offers 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*

The Company offers a number of individual variable life insurance products, which represent 19% of our net individual life insurance in force at June 30, 2016, that give the policyholder the flexibility to change both the death benefit and premium payments, and provide the potential to earn returns linked to an underlying investment portfolio that the policyholder selects. The policyholder generally can make deposits for investments in a fixed-rate option which is part of our general account or in separate account investment options consisting of equity and fixed income funds. Funds invested in the fixed-rate option provide a guarantee of principal and are credited with interest at rates that we determine, subject to certain contractual minimums. In the separate accounts, the policyholder bears the fund performance risk. The Company also offers a variable life product that has an optional flexible guarantee against lapse where policyholders can select the guarantee period. A number of our currently offered variable life products offer a policy rider that allows death benefits to be accelerated to the policyholder during a chronic or terminal illness, under certain contractual requirements. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance. A meaningful portion of the Company's individual life insurance profits, however, is associated with our large in force block of variable life insurance policies.

### *Universal Life Insurance*

The Company offers universal life insurance products that feature flexible premiums and a crediting rate that we determine, subject to certain contractual minimums. Guaranteed universal life products, which represent 12% of our net individual life insurance in force at June 30, 2016, provide a guarantee of death benefits to remain in force when a policy would otherwise lapse due to insufficient cash value. The Company also offers other universal life insurance products, which represent 3% of our net individual life insurance in force at June 30, 2016. These include products that allow the policyholders to allocate all or a portion of their account balance into an index account. The index account provides interest or an interest component linked to, but not an investment in, S&P 500 index performance over the following year, subject to certain participation rates and contractual minimums and maximums. Most of our universal life products now offer a policy rider that allows death benefits to be accelerated to the policyholder during a chronic or terminal illness, under certain contractual requirements. Mortality and expense margins and net interest spread impact profits from universal life insurance.

## **Accounting Policies & Pronouncements**

### **Application of Critical Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires the application of accounting policies that often involve a significant degree of judgment. Management, on an ongoing basis, reviews estimates and assumptions used in the preparation of financial statements. If management determines that modifications in assumptions and estimates are appropriate given current facts and circumstances, the Company's results of operations and financial position as reported in the Unaudited Interim Consolidated Financial Statements could change significantly.

Management believes the accounting policies relating to the following areas are most dependent on the application of estimates and assumptions and require management's most difficult, subjective, or complex judgments:

- Deferred policy acquisition costs ("DAC") and other costs, including deferred sales inducements ("DSI");
- Valuation of investments, including derivatives, and the recognition of other-than-temporary impairments ("OTTI");
- Policyholder liabilities;
- Reinsurance recoverables;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

### ***DAC and Other Costs***

DAC and other costs associated with the variable and universal life policies and the variable and fixed annuity contracts are generally amortized over the expected life of these policies in proportion to total gross profits. Total gross profits include both actual gross profits and estimates of gross profits for future periods. In calculating gross profits, we consider mortality, persistency, and other elements as well as rates of return on investments associated with these contracts and the cost related to our guaranteed minimum death benefits ("GMDB") and guaranteed minimum income benefits ("GMIB"). For variable annuities, gross profits and amortization rates also include the impacts of the embedded derivatives associated with certain of the living benefit features of our variable annuity contracts and related hedging activities. In calculating amortization expense, we estimate the amounts of gross profits that will be included in our U.S. GAAP results and utilize these estimates to calculate amortization rates and expense amounts. In addition, in calculating gross profits, we include the profits and losses related to contracts issued by the Company that are reported in affiliated legal entities other than the Company as a result of, for example, reinsurance agreements with those affiliated entities. The Company is an indirect subsidiary of Prudential Financial (an SEC registrant) and has extensive transactions and relationships with other subsidiaries of Prudential Financial, including reinsurance agreements, as discussed in Note 7 to the Unaudited Interim Consolidated Financial Statements. Incorporating all product-related profits and losses in gross profits, including those that are reported in affiliated legal entities, produces a DAC amortization pattern representative of the total economics of the products. For a further discussion of the amortization of DAC and other costs, see "Results of Operations".

The near-term future equity rate of return assumptions used in evaluating DAC and other costs for our domestic variable annuity and variable life insurance products are derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the "near-term") so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15%, we use our maximum future rate of return. As of June 30, 2016, our variable annuities and variable life insurance businesses assume an 8% long-term equity expected rate of return and a 6.3% near-term mean reversion equity rate of return.

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

For additional information on our policies for DAC and other costs and for the remaining critical accounting estimates listed above, see our Annual Report on Form 10-K for the year ended December 31, 2015, under "Management's Discussion and Analysis of Financial Condition and Results of Operations-Accounting Policies & Pronouncements-Application of Critical Accounting Estimates".

### **Adoption of New Accounting Pronouncements**

See Note 2 to our Unaudited Interim Consolidated Financial Statements for a discussion of newly adopted accounting pronouncements.

### **Changes in Financial Position**

#### **June 30, 2016 versus December 31, 2015**

Total assets increased \$5.3 billion, from \$148.6 billion at December 31, 2015 to \$153.9 billion at June 30, 2016. Significant components were:

- Reinsurance recoverables increased \$8.4 billion from \$22.5 billion at December 31, 2015 to \$30.9 billion at June 30, 2016. The increase was primarily driven by the reinsured liability for variable annuity living benefit embedded derivatives primarily resulting from an increase in the present value of future expected benefit payments driven by declining interest rates, and ceded policyholders' account balances related to the reinsurance of the Company's variable annuity contracts, as described within the Variable Annuities Recapture. Also, contributing to the increase was the impact of term and universal life business growth and the Hartford GUL business ceded to PAR U, which increased ceded reserves and ceded policyholders' account balances.

- Separate account assets increased \$3.6 billion from \$109.3 billion at December 31, 2015 to \$112.9 billion at June 30, 2016, primarily driven by favorable fund performance and net inflows.
- Other assets increased \$0.2 billion from \$0.1 billion at December 31, 2015 to \$0.3 billion at June 30, 2016, primarily driven by the deferred loss on reinsurance related to the reinsurance of the Company's variable annuity contracts as part of the Variable Annuities Recapture.

Partially offsetting these increases in total assets were the following items:

- DAC and DSI decreased \$4.6 billion from \$5.8 billion at December 31, 2015 to \$1.2 billion at June 30, 2016, primarily driven by the ceding of the DAC and DSI balances to PALAC as a result of the Variable Annuities Recapture.
- Total investments decreased \$2.2 billion from \$10.2 billion at December 31, 2015 to \$8.0 billion at June 30, 2016, primarily driven by the Variable Annuities Recapture, partially offset by universal life, and term life premiums.

Total liabilities increased \$7.1 billion, from \$144.1 billion at December 31, 2015 to \$151.2 billion at June 30, 2016. Significant components were:

- Future policy benefits increased \$4.4 billion from \$15.0 billion at December 31, 2015 to \$19.4 billion at June 30, 2016, primarily driven by the mark-to-market of the liability for living benefit embedded derivatives, as described above, and an increase in GMDB reserves associated with universal life business and higher reserves supporting term life business growth.
- Separate account liabilities increased \$3.6 billion, corresponding to the increase in separate account assets described above.
- Policyholders' account balances increased \$0.5 billion from \$17.2 billion at December 31, 2015 to \$17.7 billion at June 30, 2016, primarily driven by universal life business growth.

Partially offsetting these increases in total liabilities were the following items:

- Debt to affiliates decreased \$1.4 billion from \$1.4 billion at December 31, 2015 to \$0 billion at June 30, 2016, primarily driven by the reassignment of debt to PALAC and Prudential Insurance as a result of the Variable Annuities Recapture.

Total equity decreased by \$1.8 billion from \$4.5 billion at December 31, 2015 to \$2.7 billion at June 30, 2016, reflecting a recapture loss as a result of the Variable Annuities Recapture.

## Results of Operations

### Income from Operations before Income Taxes

#### *2016 to 2015 Three Months Comparison.*

Income from operations before income taxes increased \$0.5 billion from \$0.2 billion in the second quarter of 2015 to \$0.7 billion in the second quarter of 2016. This was primarily driven by a favorable variance of \$1.0 billion in realized investment gains (losses), consisting of a realized investment gain of \$0.7 billion from the recapture of the living benefit guarantee from Pruco Re, and subsequent ceding of the variable annuities business to PALAC and Prudential Insurance, as part of the Variable Annuities Recapture. Also contributing to the above was a favorable variance of \$0.3 billion driven by the results of the reinsured embedded derivative related to the no-lapse guarantee. This was partially offset by a \$0.4 billion decline in policy charges and fee income due to the Variable Annuities Recapture.

#### *2016 to 2015 Six Months Comparison.*

Income from operations before income taxes was relatively flat from \$0.3 billion in the first six months of 2015 to \$0.3 billion in the first six months of 2016. This was primarily driven by a favorable variance of \$1.0 billion in realized investment gains (losses) as discussed above. This was partially offset by an unfavorable variance of \$0.5 billion from an increase in DAC and DSI amortization due to the mark-to-market of our living benefit guarantees and related hedge positions and a decline in policy charges and fee income of \$0.4 billion as discussed above.

### Revenues, Benefits and Expenses

#### *2016 to 2015 Three Months Comparison*

Revenues decreased \$0.5 billion from \$0.6 billion in the second quarter of 2015 to \$0.1 billion in the second quarter of 2016, primarily driven by a decline in premiums of \$0.9 billion due to the consideration transferred to PALAC and Prudential Insurance as part of the Variable Annuities Recapture. Policy charges and fee income, and asset administration fees decreased \$0.6 billion primarily due to a decline in fees as a result of the Variable Annuities Recapture, partially offset by an increase in realized investment gains (losses) of \$1.0 billion as described above.

Benefits and expenses decreased \$1.0 billion from \$0.4 billion in the second quarter of 2015 to (\$0.6) billion in the second quarter of 2016, primarily driven by a favorable variance in policyholders' benefits of \$0.6 billion due to ceded GMDB and GMIB reserves as a result of the Variable Annuities Recapture. General, administrative and other expenses decreased \$0.4 billion, primarily driven by the deferral of the loss on reinsurance and ceded trail commissions.

#### *2016 to 2015 Six Months Comparison*

Revenues decreased \$0.5 billion from \$1.4 billion in the first six months of 2015 to \$0.9 billion in the first six months of 2016, primarily driven by a decline in premiums of \$0.9 billion due to the consideration for the recapture and subsequent ceding of the variable annuity business. Policy charges and fee income, and asset administration fees decreased \$0.6 billion primarily due to a decline in fees as a result of the Variable Annuities Recapture, partially offset by an increase in realized investment gains (losses) of \$1.0 billion as described above.

Benefits and expenses decreased \$0.5 billion from \$1.1 billion in the first six months of 2015 to \$0.6 billion in the first six months of 2016, primarily driven by a favorable variance in general, administrative and other expenses of \$0.5 billion primarily driven by the deferral of the loss on reinsurance and ceded trail commissions. Policyholders' benefits decreased \$0.4 billion due to ceded GMDB and GMIB reserves as a result of the Variable Annuities Recapture. Partially offsetting the above was a \$0.5 billion increase in DAC and DSI amortization due to the variance on the mark-to-market of our living benefit features and related hedge positions, as described above.

### Income Taxes

The income tax provision amounted to a benefit of \$50 million and an expense of \$35 million for the six months ended June 30, 2016 and 2015, respectively. The change in tax provision was primarily driven by a decrease in pre-tax income.

The Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing authorities. Audit periods remain open

for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards (“tax attributes”), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes.

The Company does not anticipate any significant changes within the next 12 months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

As of June 30, 2016, the Company remains subject to examination in the U.S. for tax years 2009 through 2015.

The dividends received deduction (“DRD”) reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between the Company’s effective tax rate and the federal statutory tax rate of 35%. The DRD for the current period was estimated using information from 2015 and current year results, and was adjusted to take into account the current year’s equity market performance and expected business results. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts, and the Company’s taxable income before the DRD.

There is a possibility that the IRS and the U.S. Treasury will address, through guidance, their issues related to the calculation of the DRD. For the last several years, revenue proposals included in the Obama Administration’s budgets have included proposed changes to 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 net income.

For tax years 2009 through 2016, the Company is participating in the IRS’s Compliance Assurance Program (“CAP”). Under CAP, the IRS assigns an examination team to review completed transactions as they occur in order to reach agreement with the Company on how they should be reported in the relevant tax returns. If disagreements arise, accelerated resolution programs are available to resolve the disagreements in a timely manner before the tax returns are filed.

## **Liquidity and Capital Resources**

This section supplements and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources” included in our Annual Report on Form 10-K for the year ended December 31, 2015.

### **Overview**

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long-term financial resources available to support the operations of our businesses, fund business growth, and provide a cushion to withstand adverse circumstances. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our businesses, general economic conditions, our ability to borrow from affiliates and our access to the capital markets through affiliates as described herein.

Effective and prudent liquidity and capital management is a priority across the organization. Management monitors the liquidity of Prudential Financial, Prudential Insurance and the Company on a daily basis and projects borrowing and capital needs over a multi-year time horizon through our periodic planning process. We believe that cash flows from the sources of funds available to us are sufficient to satisfy the current liquidity requirements of Prudential Insurance, Prudential Financial and the Company, including under reasonably foreseeable stress scenarios. Prudential Financial has a capital management framework in place that governs the allocation of capital and approval of capital uses. Prudential Financial and the Company also employ a “Capital Protection Framework” to ensure the availability of capital resources to maintain adequate capitalization and competitive risk-based capital (“RBC”) ratios under various stress scenarios.

Prudential Financial is a Designated Financial Company under Dodd-Frank. As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the Federal Reserve Bank of Boston and to stricter prudential regulatory standards, which include or will include requirements and limitations (many of which are the subject of ongoing rule-making) relating to capital, leverage, liquidity, stress-testing, overall risk management, resolution and recovery plans, credit exposure reporting, early remediation, management interlocks, and credit concentration. They may also include additional standards

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regarding enhanced public disclosure, short-term debt limits, and other related subjects. In addition, the Financial Stability Board ("FSB") has identified Prudential Financial as a global systemically important insurer ("G-SII"). For information on these actions and their potential impact on us, see "Overview-Regulatory Developments-Capital and Prudential Standards" above and "Business-Regulation" and "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Through March 31, 2016, the Company reinsured the majority its variable annuity living benefit guarantees to an affiliated company, Pruco Re, in order to facilitate the capital markets hedging program for these living benefit guarantees. Effective April 1, 2016, the Company recaptured the risks related to its variable annuity living benefit guarantees that were previously reinsured to Pruco Re and reinsured the variable annuity base contracts, along with the living benefit guarantees, to PALAC, excluding the PLNJ business which was reinsured to Prudential Insurance.

## Capital

Our capital management framework is primarily based on statutory risk based capital measures. The RBC ratio is a primary measure of the capital adequacy of the Company. RBC is calculated based on statutory financial statements and risk formulas consistent with the practices of the National Association of Insurance Commissioners ("NAIC"). RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products and liabilities, interest rate risks and general business risks. RBC ratio calculations are intended to assist insurance regulators in measuring an insurer's solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities, but is available to the public. The RBC ratio is an annual calculation; however, as of June 30, 2016 we estimate that the Company's RBC ratio exceeds the minimum level required by applicable insurance regulations.

The regulatory capital level of the Company can be materially impacted by interest rate and equity market fluctuations, changes in the values of derivatives, the level of impairments recorded, credit quality migration of the investment portfolio, and business growth, among other items. In addition, the reinsurance of business or the recapture of business subject to reinsurance arrangements could negatively impact regulatory capital levels. The Company's regulatory capital level is also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator.

### *Capital Protection Framework*

Prudential Financial employs a "Capital Protection Framework" (the "Framework") to ensure that sufficient capital resources are available to maintain adequate capitalization and competitive RBC ratios and solvency margins under various stress scenarios. The Framework incorporates the potential impacts from market related stresses, including equity markets, real estate, interest rates, and credit losses. The Framework addresses the potential capital consequences, under stress scenarios, of certain of these net risks and the strategies we use to mitigate them, including the following:

- Equity market exposure affecting the statutory capital of the Company and Prudential Financial as a whole, which is managed through Prudential Financial's equity hedge program and on-balance sheet and contingent sources of capital; and
- Activities of Prudential Financial's business segments, including those for which specific risk mitigation strategies have been implemented, such as the living benefits hedging program that covers certain risks associated with our variable annuity products. Effective April 1, 2016, the living benefits hedging program resides within PALAC and Prudential Insurance.

The hedging strategy is periodically recalibrated in response to changing market conditions. The Framework accommodates periodic volatility within ranges that are deemed acceptable, while also providing for additional potential sources of capital, including on-balance sheet capital, derivatives, and contingent sources of capital. Although Prudential Financial continues to enhance its approach, we believe we currently have access to sufficient resources, either directly, or indirectly through Prudential Financial, to maintain adequate capitalization and a competitive RBC ratio under a range of potential stress scenarios.

### *Affiliated Captive Reinsurance Companies*

See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Capital-Affiliated Captive Reinsurance Companies" included in our Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of our use of captive reinsurance companies.

Effective April 1, 2016, we recaptured the risks related to our variable annuity living benefit guarantees that were previously reinsured to Pruco Re, as discussed above in the Variable Annuities Recapture.

## Liquidity

Our liquidity is managed to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity is provided by a variety of sources, as described more fully below, including portfolios of liquid assets. Our investment portfolios are integral to the overall liquidity of the Company. We use a projection process for cash flows from operations to ensure sufficient liquidity to meet projected cash outflows, including claims. The impact of Prudential Funding, LLC's financing capacity on liquidity (as described below) is considered in the internal liquidity measures of the Company.

Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate our liquidity under various stress scenarios. We continue to believe that cash generated by ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios.

The principal sources of the Company's liquidity are premiums and certain annuity considerations, investment and fee income, investment maturities and sales as well as internal borrowings. The principal uses of that liquidity include benefits, claims, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, the payment of dividends to the parent company, hedging activity and payments in connection with financing activities.

Liquid assets include cash and cash equivalents, short-term investments and fixed maturities that are not designated as held-to-maturity and public equity securities. As of June 30, 2016 and December 31, 2015 the Company had liquid assets of \$5,816 million and \$7,383 million, respectively. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was \$369 million and \$425 million as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, \$4,978 million, or 93%, of the fixed maturity investments in Company general account portfolios were rated high or highest quality based on NAIC or equivalent rating. The remaining \$409 million, or 7%, of these fixed maturity investments were rated other than high or highest quality.

Prudential Financial and Prudential Funding, LLC, or Prudential Funding, a wholly-owned subsidiary of Prudential Insurance, borrow funds in the capital markets primarily through the direct issuance of commercial paper. The borrowings serve as an additional source of financing to meet our working capital needs. Prudential Funding operates under a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding's positive tangible net worth at all times.

Affiliated captive reinsurance companies are used to finance the portion of the statutory reserves required to be held under Regulation XXX and Guideline AXXX that is considered non-economic. The financing arrangements involve term and universal life business we reinsure to our affiliated captive reinsurers. The surplus notes issued by those captives are treated as capital for statutory purposes. As of June 30, 2016, our affiliated captive reinsurance companies have entered into agreements with external counterparties providing for the issuance of up to \$8.85 billion of surplus notes in return for the receipt of credit-linked notes. Under the agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose affiliate with an aggregate principal amount equal to the surplus notes outstanding. The captive holds the credit-linked notes as assets supporting Regulation XXX or Guideline AXXX non-economic reserves, as applicable. As of June 30, 2016, an aggregate of \$6.72 billion of surplus notes was outstanding under our Credit-Linked Note Structures, reflecting an increase of \$217 million from December 31, 2015.

In addition, as of June 30, 2016, our affiliated captive reinsurance companies had outstanding an aggregate of \$3.4 billion of debt issued for the purpose of financing Regulation XXX and Guideline AXXX non-economic reserves, of which approximately \$1.5 billion relates to Regulation XXX reserves and approximately \$1.9 billion relates to Guideline AXXX reserves, and all of which was issued directly by or guaranteed by Prudential Financial. Under certain of the financing arrangements pursuant to which this debt was issued, Prudential Financial has agreed to make capital contributions to the applicable captive reinsurance company to reimburse it for investment losses or to maintain its capital above prescribed minimum levels. In addition, as of June 30, 2016, for purposes of financing Guideline AXXX reserves, our affiliated captives had outstanding approximately \$4.0 billion of surplus notes that were issued to Prudential Financial in exchange for promissory notes of affiliates guaranteed by Prudential Financial.

In December 2014, the NAIC adopted a new actuarial guideline, known as "AG 48," that governs the reinsurance of term and universal life insurance business to captives by prescribing requirements for the types of assets that may be held by captives to support the reserves. The requirements in AG 48 became effective on January 1, 2015, and apply in respect of term and certain universal life insurance policies written from and after January 1, 2015, or written prior to January 1, 2015 but not included in a captive reserve financing arrangement as of December 31, 2014. AG 48 requires our captive affiliates to hold cash and rated securities in greater amounts than they previously held to support economic reserves for certain of the term and universal life

policies. While we continue to work with regulators and industry participants on potential long-term solutions, our affiliated captives have funded the additional requirement for 2015 using a combination of existing assets and newly purchased assets sourced from affiliated financing and believe our affiliated captives have sufficient affiliated resources to finance the additional asset requirement through 2016.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. As of June 30, 2016, there have been no material changes in our economic exposure to market risk from December 31, 2015, a description of which may be found in our Annual Report on Form 10-K for the year ended December 31, 2015, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk,” filed with the SEC. See Item 1A, “Risk Factors” included in the Annual Report on Form 10-K for the year ended December 31, 2015, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations. Effective April 1, 2016, the Company recaptured the risks related to its variable annuity living benefit riders that were previously reinsured to Pruco Re. In addition, the Company reinsured the variable annuity base contracts, along with the living benefit riders, to PALAC, excluding the PLNJ business which was reinsured to Prudential Insurance, in each case under a coinsurance and modified coinsurance agreement. This reinsurance agreement covers new and in force business and excludes business reinsured externally. The product risks related to the business reinsured to PALAC are being managed in PALAC and the product risks related to the business reinsured to Prudential Insurance are being managed in Prudential Insurance. In addition, the living benefit hedging program related to the reinsured living benefit riders is being managed in PALAC or Prudential Insurance.

### **Item 4. Controls and Procedures**

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company’s management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities Exchange Act of 1934, as amended (“Exchange Act”) Rule 13a-15(e), as of June 30, 2016. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2016, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended June 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### **Item 1. Legal Proceedings**

See Note 6 to the Unaudited Interim Consolidated Financial Statements under “—Litigation and Regulatory Matters” for a description of material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, which is incorporated herein by reference.

### **Item 1A. Risk Factors**

You should carefully consider the risks described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015. These risks could materially affect our business, results of operations or financial condition or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company. 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 Quarterly Report on Form 10-Q.

**Item 6. Exhibits**

|         |                                                           |
|---------|-----------------------------------------------------------|
| 31.1    | Section 302 Certification of the Chief Executive Officer. |
| 31.2    | Section 302 Certification of the Chief Financial Officer. |
| 32.1    | Section 906 Certification of the Chief Executive Officer. |
| 32.2    | Section 906 Certification of the Chief Financial Officer. |
| 101.INS | -XBRL Instance Document.                                  |
| 101.SCH | -XBRL Taxonomy Extension Schema Document.                 |
| 101.CAL | -XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.LAB | -XBRL Taxonomy Extension Label Linkbase Document.         |
| 101.PRE | -XBRL Taxonomy Extension Presentation Linkbase Document.  |
| 101.DEF | -XBRL Taxonomy Extension Definition Linkbase Document.    |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Pruco Life Insurance Company

By: /s/ Yanela C. Frias

Name: Yanela C. Frias  
Vice President and Chief Financial Officer  
(Authorized Signatory and Principal Financial Officer)

Date: August 12, 2016

## CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Lori D. Fouché, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pruco Life Insurance Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2016

/s/ Lori D. Fouché

Lori D. Fouché

President and Chief Executive Officer

## CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Yanela C. Frias, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pruco Life Insurance Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2016

/s/ Yanela C. Frias

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Yanela C. Frias  
Vice President and Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER**

Pursuant to 18 U.S.C. § 1350, I, Lori D. Fouché, President and Chief Executive Officer of Pruco Life Insurance Company (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2016

/s/ Lori D. Fouché

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Lori D. Fouché

President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER**

Pursuant to 18 U.S.C. § 1350, I, Yanela C. Frias, Vice President and Chief Financial Officer of Pruco Life Insurance Company (the “Company”), hereby certify that the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 12, 2016

/s/ Yanela C. Frias

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Yanela C. Frias

Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.