

PRUDENTIAL FINANCIAL INC
Form 10-Q
August 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.
(Exact Name of Registrant as Specified in its Charter)

New Jersey (State or Other Jurisdiction of Incorporation or Organization) 751 Broad Street Newark, New Jersey 07102 (973) 802-6000 (Address and Telephone Number of Registrant's Principal Executive Offices)	22-3703799 (I.R.S. Employer Identification Number)
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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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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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 July 31, 2015, 451 million shares of the registrant's Common Stock (par value \$0.01) were outstanding.

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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 these words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other post-retirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing projected results of acquisitions; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; and (26) Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2014 for discussion of certain risks relating to our businesses and investment in our securities.

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

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

June 30, 2015 and December 31, 2014 (in millions, except share amounts)

	June 30, 2015	December 31, 2014
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2015-\$262,820; 2014-\$265,116)(1)	\$ 290,063	\$ 299,090
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2015-\$2,674; 2014-\$2,902)(1)	2,396	2,575
Trading account assets supporting insurance liabilities, at fair value(1)	20,267	20,263
Other trading account assets, at fair value(1)	12,749	10,874
Equity securities, available-for-sale, at fair value (cost: 2015-\$6,870; 2014-\$6,921)	9,901	9,861
Commercial mortgage and other loans (includes \$391 and \$380 measured at fair value under the fair value option at June 30, 2015 and December 31, 2014, respectively)(1)	48,569	46,432
Policy loans	11,652	11,712
Other long-term investments (includes \$1,267 and \$1,082 measured at fair value under the fair value option at June 30, 2015 and December 31, 2014, respectively)(1)	10,678	10,921
Short-term investments	5,669	8,258
Total investments	411,944	419,986
Cash and cash equivalents(1)	17,038	14,918
Accrued investment income(1)	3,117	3,130
Deferred policy acquisition costs	16,569	15,971
Value of business acquired	2,994	2,836
Other assets(1)	14,728	13,379
Separate account assets	296,341	296,435
TOTAL ASSETS	\$ 762,731	\$ 766,655
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 216,555	\$ 217,766
Policyholders’ account balances(1)	135,630	136,150
Policyholders’ dividends	6,528	7,661
Securities sold under agreements to repurchase	7,863	9,407
Cash collateral for loaned securities	3,808	4,241
Income taxes	9,239	9,881
Short-term debt	3,621	3,839
Long-term debt	20,264	19,831
Other liabilities(1)	13,135	13,037
Notes issued by consolidated variable interest entities (includes \$7,434 and \$6,033 measured at fair value under the fair value option at June 30, 2015 and December 31, 2014, respectively)(1)	7,455	6,058
Separate account liabilities	296,341	296,435
Total liabilities	720,439	724,306
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		

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EQUITY

Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 660,111,339 shares issued at both June 30, 2015 and December 31, 2014)	6	6
Class B Stock (\$.01 par value; 0 shares authorized and issued at June 30, 2015; 10,000,000 shares authorized and 2,000,000 shares issued at December 31, 2014)	0	0
Additional paid-in capital	24,397	24,565
Common Stock held in treasury, at cost (208,199,088 and 205,277,862 shares at June 30, 2015 and December 31, 2014, respectively)	(13,398	) (13,088)
Class B Stock held in treasury, at cost (0 and 2,000,000 shares at June 30, 2015 and December 31, 2014, respectively)	0	(651)
Accumulated other comprehensive income (loss)	13,404	16,050
Retained earnings	17,314	14,888
Total Prudential Financial, Inc. equity	41,723	41,770
Noncontrolling interests	569	579
Total equity	42,292	42,349
TOTAL LIABILITIES AND EQUITY	\$762,731	\$ 766,655

(1) See Note 5 for details of balances associated with variable interest entities.
See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three and Six Months Ended June 30, 2015 and 2014 (in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
REVENUES				
Premiums	\$7,582	\$6,068	\$14,229	\$11,936
Policy charges and fee income	1,250	1,520	2,858	3,021
Net investment income	3,671	3,754	7,440	7,592
Asset management and service fees	956	928	1,908	1,832
Other income	124	267	339	802
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(54	) (32	) (68	) (111
Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income	25	6	31	69
Other realized investment gains (losses), net	158	635	2,527	859
Total realized investment gains (losses), net	129	609	2,490	817
Total revenues	13,712	13,146	29,264	26,000
BENEFITS AND EXPENSES				
Policyholders' benefits	7,852	6,466	15,091	12,852
Interest credited to policyholders' account balances	676	1,178	1,909	2,193
Dividends to policyholders	437	711	1,218	1,311
Amortization of deferred policy acquisition costs	135	482	924	919
General and administrative expenses	2,483	2,802	5,245	5,500
Total benefits and expenses	11,583	11,639	24,387	22,775
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES				
	2,129	1,507	4,877	3,225
Total income tax expense (benefit)	679	404	1,378	877
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES				
	1,450	1,103	3,499	2,348
Equity in earnings of operating joint ventures, net of taxes	9	6	6	6
INCOME (LOSS) FROM CONTINUING OPERATIONS				
	1,459	1,109	3,505	2,354
Income (loss) from discontinued operations, net of taxes	0	4	0	8
NET INCOME (LOSS)				
	1,459	1,113	3,505	2,362
Less: Income (loss) attributable to noncontrolling interests	53	23	63	34
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.				
	\$1,406	\$1,090	\$3,442	\$2,328
EARNINGS PER SHARE(1)				
Basic earnings per share-Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	\$3.07	\$2.25	\$7.52	\$4.87
Income (loss) from discontinued operations, net of taxes	0.00	0.01	0.00	0.02
Net income (loss) attributable to Prudential Financial, Inc.	\$3.07	\$2.26	\$7.52	\$4.89
Diluted earnings per share-Common Stock:				
	\$3.03	\$2.21	\$7.40	\$4.79

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Income (loss) from continuing operations attributable to Prudential Financial, Inc.

Income (loss) from discontinued operations, net of taxes	0.00	0.01	0.00	0.02
Net income (loss) attributable to Prudential Financial, Inc.	\$3.03	\$2.22	\$7.40	\$4.81
Dividends declared per share of Common Stock	\$0.58	\$0.53	\$1.16	\$1.06

For the three and six months ended June 30, 2015, represents consolidated earnings per share of Common Stock.

(1) For the three and six months ended June 30, 2014, represents earnings of the Company's former Financial Services Businesses per share of Common Stock. See Note 8 for additional information.

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income
Three and Six Months Ended June 30, 2015 and 2014 (in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
NET INCOME (LOSS)	\$1,459	\$1,113	\$3,505	\$2,362
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	(96)	167	(163)	247
Net unrealized investment gains (losses)	(6,702)	3,251	(4,212)	6,319
Defined benefit pension and postretirement unrecognized periodic benefit	54	20	106	43
Total	(6,744)	3,438	(4,269)	6,609
Less: Income tax expense (benefit) related to other comprehensive income (loss)	(2,380)	1,158	(1,569)	2,205
Other comprehensive income (loss), net of taxes	(4,364)	2,280	(2,700)	4,404
Comprehensive income (loss)	(2,905)	3,393	805	6,766
Less: Comprehensive income (loss) attributable to noncontrolling interests	37	24	9	42
Comprehensive income (loss) attributable to Prudential Financial, Inc.	\$(2,942)	\$3,369	\$796	\$6,724

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity
Six Months Ended June 30, 2015 and 2014 (in millions)

	Prudential Financial, Inc. Equity								
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Class B Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2014	\$6	\$ 24,565	\$ 14,888	\$(13,088)	\$(651)	\$ 16,050	\$ 41,770	\$ 579	\$ 42,349
Common Stock acquired				(500)			(500)		(500)
Class B Stock canceled		(167)	(484)		651		0		0
Contributions from noncontrolling interests								23	23
Distributions to noncontrolling interests								(42)	(42)
Stock-based compensation programs		(1)		190			189		189
Dividends declared on Common Stock			(532)				(532)		(532)
Comprehensive income:									
Net income (loss)			3,442				3,442	63	3,505
Other comprehensive income (loss), net of tax						(2,646)	(2,646)	(54)	(2,700)
Total comprehensive income (loss)							796	9	805
Balance, June 30, 2015	\$6	\$ 24,397	\$ 17,314	\$(13,398)	\$0	\$ 13,404	\$ 41,723	\$ 569	\$ 42,292

	Prudential Financial, Inc. Equity								
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Class B Stock Held in Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2013	\$6	\$ 24,475	\$ 14,531	\$(12,415)	\$0	\$ 8,681	\$ 35,278	\$ 603	\$ 35,881
				(500)			(500)		(500)

Common Stock acquired											
Contributions from noncontrolling interests	(3	)				(3	)	2	(1)	
Distributions to noncontrolling interests								(54	)	(54)
Consolidations (deconsolidations) of noncontrolling interests								19		19	
Stock-based compensation programs	6		192			198				198	
Dividends declared on Common Stock		(493	)			(493	)			(493)
Dividends declared on Class B Stock		(9	)			(9	)			(9)
Comprehensive income:											
Net income (loss)			2,328			2,328		34		2,362	
Other comprehensive income (loss), net of tax					4,396	4,396		8		4,404	
Total comprehensive income (loss)						6,724		42		6,766	
Balance, June 30, 2014	\$6	\$24,478	\$16,357	\$(12,723)	\$0	\$13,077	\$41,195	\$612		\$41,807	

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Six Months Ended June 30, 2015 and 2014 (in millions)

	2015	2014	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$3,505	\$2,362	
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized investment (gains) losses, net	(2,490)	(817))
Policy charges and fee income	(760)	(1,032))
Interest credited to policyholders' account balances	1,909	2,193	
Depreciation and amortization	(48)	179)
(Gains) losses on trading account assets supporting insurance liabilities, net	137	(324))
Change in:			
Deferred policy acquisition costs	(387)	(429))
Future policy benefits and other insurance liabilities	3,157	3,251	
Other trading account assets	(62)	(1))
Income taxes	1,038	898	
Derivatives, net	(1,919)	302)
Other, net	(605)	(1,027))
Cash flows from (used in) operating activities	3,475	5,555	
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale/maturity/prepayment of:			
Fixed maturities, available-for-sale	24,630	26,535	
Fixed maturities, held-to-maturity	121	232	
Trading account assets supporting insurance liabilities and other trading account assets	6,595	6,098	
Equity securities, available-for-sale	2,488	2,483	
Commercial mortgage and other loans	2,392	1,673	
Policy loans	1,119	1,096	
Other long-term investments	490	208	
Short-term investments	41,720	35,249	
Payments for the purchase/origination of:			
Fixed maturities, available-for-sale	(23,175)	(32,670))
Fixed maturities, held-to-maturity	0	(23))
Trading account assets supporting insurance liabilities and other trading account assets	(8,433)	(7,563))
Equity securities, available-for-sale	(2,101)	(2,289))
Commercial mortgage and other loans	(4,372)	(3,527))
Policy loans	(907)	(969))
Other long-term investments	(870)	(847))
Short-term investments	(39,095)	(33,301))
Acquisition of business, net of cash acquired.	0	(23))
Derivatives, net	148	(115))
Other, net	(36)	228)
Cash flows from (used in) investing activities	714	(7,525))
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholders' account deposits	10,730	12,226	
Policyholders' account withdrawals	(10,678)	(11,617))
	(1,978)	736)

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Net change in securities sold under agreements to repurchase and cash collateral for loaned securities			
Cash dividends paid on Common Stock	(537	) (495)
Cash dividends paid on Class B Stock	0	(10)
Net change in financing arrangements (maturities 90 days or less)	493	324	
Common Stock acquired	(502	) (500)
Class B stock acquired	(651	) 0	
Common Stock reissued for exercise of stock options	125	138	
Proceeds from the issuance of debt (maturities longer than 90 days)	3,348	2,817	
Repayments of debt (maturities longer than 90 days)	(2,166	) (971)
Excess tax benefits from share-based payment arrangements	14	16	
Other, net	(307	) (47)
Cash flows from (used in) financing activities	(2,109	) 2,617	
Effect of foreign exchange rate changes on cash balances	40	74	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,120	721	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,918	11,439	
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$17,038	\$12,160	

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NON-CASH TRANSACTIONS DURING THE PERIOD

Treasury Stock shares issued for stock-based compensation programs	\$109	\$94
Significant Pension Risk Transfer transactions:		
Assets acquired, excluding cash and cash equivalents acquired	\$1,553	\$0
Liabilities assumed	1,919	0
Net cash received	\$366	\$0
Acquisition of Gibraltar BSN Life Berhad:		
Assets acquired, excluding cash and cash equivalents acquired	\$0	\$656
Liabilities assumed	0	586
Noncontrolling Interest assumed	0	47
Net cash paid on acquisition	\$0	\$23
See Notes to Unaudited Interim Consolidated Financial Statements		

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (“Prudential Financial”) and its subsidiaries (collectively, “Prudential” or the “Company” or “PFI”) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds and investment management.

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

On January 2, 2015, Prudential Financial repurchased and canceled all of the shares of the Class B Stock (the “Class B Repurchase”). As a result, the Company no longer organizes its principal operations into the Financial Services Businesses and the Closed Block Business. The Company’s principal operations are comprised of four divisions: the U.S. Retirement Solutions and Investment Management division, the U.S. Individual Life and Group Insurance division, the International Insurance division and the Closed Block division. The Company’s Corporate and Other operations include corporate items and initiatives that are not allocated to business segments, businesses that are not sufficiently material to warrant separate disclosure and businesses that have been or will be divested, excluding the Closed Block division.

The Closed Block division includes certain in force participating insurance and annuity products and corresponding assets that are used for the payment of benefits and policyholders’ dividends on these products (the “Closed Block”), as well as certain related assets and liabilities (see Note 6). In connection with demutualization, the Company ceased offering these participating products. The Closed Block division is accounted for as a divested business that is reported separately from the divested businesses that are included in the Company’s Corporate and Other operations.

Basis of Presentation

As a result of the Class B Repurchase and resulting elimination of the separation of the Financial Services Businesses and the Closed Block Business, these Unaudited Interim Consolidated Financial Statements refer to the divisions and segments of the Company that formerly comprised the Financial Services Businesses as “PFI excluding Closed Block division” and refer to the operations that were formerly included in the Closed Block Business as the “Closed Block division,” except as otherwise noted. Closed Block Business results were associated with the Company’s Class B Stock for periods prior to January 1, 2015.

The Unaudited Interim Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and minority-owned entities such as limited partnerships in which the Company is the general partner, and variable interest entities in which the Company is considered the primary beneficiary. See Note 5 for more information on the Company’s consolidated variable interest entities. 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, 2014.

The Company's Gibraltar Life Insurance Company, Ltd. ("Gibraltar Life") consolidated operations use a November 30 fiscal year end for purposes of inclusion in the Company's Consolidated Financial Statements; therefore, the Unaudited Interim Consolidated Financial Statements as of June 30, 2015, include the assets and liabilities of Gibraltar Life and its results of operations as of, and for the three and six months ended, May 31, 2015, respectively.

Use of Estimates

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 (“DAC”) and related amortization; value of business acquired (“VOBA”) and its amortization; amortization of sales inducements; measurement of goodwill and any related impairment; valuation of investments including derivatives and the recognition of other-than-temporary impairments; future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; and reserves for contingent liabilities, including reserves for losses in connection with unresolved legal matters.

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, 2014.

Earnings Per Share

As discussed in Note 1, from demutualization through December 31, 2014, the Company had two separate classes of common stock. Basic earnings per share for those periods was computed by dividing available income attributable to each of the two groups of common shareholders by the respective weighted average number of common shares outstanding for the period. Diluted earnings per share included the effect of all dilutive potential common shares that were outstanding during the period.

As a result of the Class B Repurchase, earnings per share of Common Stock for the three and six months ended June 30, 2015, reflects the consolidated earnings of Prudential Financial. Basic earnings per share is computed by dividing available income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share includes the effect of all dilutive potential common shares that were outstanding during the period. See Note 8 for additional information.

Adoption of New Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (“FASB”) issued updated guidance 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.

In January 2014, the FASB issued updated guidance 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 April 2014, the FASB issued updated guidance that changes the criteria for reporting discontinued operations and introduces new disclosures. The new guidance became effective for new disposals and new classifications of disposal groups as held for sale that occur within annual periods that began on or after December 15, 2014, and interim periods within those annual periods. 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 June 2014, the FASB issued updated guidance 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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 4.

In August 2014, the FASB issued guidance 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.

Future Adoption of New Accounting Pronouncements

In May 2014, the FASB issued updated guidance 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. 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 not 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 August 2014, the FASB issued updated guidance 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 elected, the guidance will eliminate the measurement difference that exists when both are measured at fair value. The new guidance is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted, and can be elected for modified retrospective or full retrospective adoption. 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 2015, the FASB issued updated guidance that changes 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 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 April 2015, the FASB issued guidance that simplifies presentation of debt issuance costs. The pronouncement requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct

deduction from the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective for periods beginning after December 15, 2015, with early adoption permitted, and it must be applied retrospectively. The Company does not expect the impact of the guidance to have a significant effect on the Company's consolidated financial position and financial statement disclosures.

In May 2015, the FASB issued final guidance that aims to enhance disclosures about insurance contracts classified as short-duration. The new disclosure requirements focus on providing users of financial statements with more transparent information about an insurance entity's initial claim estimates and subsequent adjustments to those estimates, methodologies and judgments in estimating claims, and timing, frequency and severity of claims as they relate to short-duration insurance contracts. The new guidance is effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016 and is to be applied retrospectively. The Company is currently assessing the impact of the guidance on the Company's financial statement disclosures but has concluded that this guidance will not impact the Company's consolidated financial position or results of operations.

3. ACQUISITIONS

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

This section supplements, and should be read in conjunction with, the complete descriptions provided in Note 3 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.

Acquisition of Administradora de Fondos de Pensiones Habitat S.A.

In March 2015, the Company and Inversiones La Construcción S.A. signed definitive documentation related to the Company's previously disclosed acquisition of an indirect ownership interest in Administradora de Fondos de Pensiones Habitat S.A. ("AFP Habitat") and filed for regulatory approval. The transaction, which is subject to certain conditions, including receipt of regulatory approvals, is expected to close in the second half of 2015.

4. 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, 2015				Other-than-temporary Impairments in AOCI(4)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
	(in millions)				
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$14,196	\$3,635	\$20	\$17,811	\$0
Obligations of U.S. states and their political subdivisions	7,378	614	106	7,886	0
Foreign government bonds	68,681	10,342	162	78,861	(1)
Corporate securities(1)	144,539	14,607	2,572	156,574	(18)
Asset-backed securities(2)	10,948	387	100	11,235	(565)
Commercial mortgage-backed securities	11,918	284	50	12,152	(1)
Residential mortgage-backed securities(3)	5,160	391	7	5,544	(4)
Total fixed maturities, available-for-sale(1)	\$262,820	\$30,260	\$3,017	\$290,063	\$(589)
Equity securities, available-for-sale	\$6,870	\$3,119	\$88	\$9,901	

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity				
Foreign government bonds	\$804	\$160	\$0	\$964
Corporate securities(5)	696	60	2	754
Commercial mortgage-backed securities	59	2	0	61
Residential mortgage-backed securities(3)	837	58	0	895

Total fixed maturities, held-to-maturity(5)	\$2,396	\$280	\$2	\$2,674
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- (1) Excludes notes with amortized cost of \$693 million (fair value, \$695 million) which have been offset with the associated payables under a netting agreement.
- (2) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
- (3) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
Represents the amount of other-than-temporary impairment losses in Accumulated Other Comprehensive Income (“AOCI”), which were not included in earnings. Amount excludes \$944 million of net unrealized gains on impaired available-for-sale securities and less than \$1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.
- (4) Excludes notes with amortized cost of \$3,850 million (fair value, \$4,069 million) which have been offset with the associated payables under a netting agreement.
- (5)

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2014				Other-than-temporary
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Impairments in AOCI(4)
	(in millions)				
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$15,807	\$4,321	\$5	\$20,123	\$0
Obligations of U.S. states and their political subdivisions	5,720	814	3	6,531	0
Foreign government bonds	69,894	11,164	117	80,941	(1)
Corporate securities(1)	143,631	17,799	1,054	160,376	(6)
Asset-backed securities(2)	10,966	353	134	11,185	(592)
Commercial mortgage-backed securities	13,486	430	39	13,877	(1)
Residential mortgage-backed securities(3)	5,612	448	3	6,057	(5)
Total fixed maturities, available-for-sale(1)	\$265,116	\$35,329	\$1,355	\$299,090	\$(605)
Equity securities, available-for-sale	\$6,921	\$3,023	\$83	\$9,861	

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity				
Foreign government bonds	\$821	\$184	\$0	\$1,005
Corporate securities(5)	713	68	1	780
Commercial mortgage-backed securities	78	7	0	85
Residential mortgage-backed securities(3)	963	69	0	1,032
Total fixed maturities, held-to-maturity(5)	\$2,575	\$328	\$1	\$2,902

(1) Excludes notes with amortized cost of \$385 million (fair value, \$385 million) which have been offset with the associated payables under a netting agreement.

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

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

Represents the amount of other-than-temporary impairment losses in AOCI, which were not included in earnings.

(4) Amount excludes \$954 million of net unrealized gains on impaired available-for-sale securities and \$1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(5) Excludes notes with amortized cost of \$3,588 million (fair value, \$3,953 million) which have been offset with the associated payables under a netting agreement.

The amortized cost and fair value of fixed maturities by contractual maturities at June 30, 2015, are as follows:

Available-for-Sale

Held-to-Maturity

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	Amortized Cost (in millions)	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$11,624	\$12,378	\$0	\$0
Due after one year through five years	44,963	50,198	72	77
Due after five years through ten years	56,728	62,754	167	175
Due after ten years(1)	121,479	135,802	1,261	1,466
Asset-backed securities	10,948	11,235	0	0
Commercial mortgage-backed securities	11,918	12,152	59	61
Residential mortgage-backed securities	5,160	5,544	837	895
Total	\$262,820	\$290,063	\$2,396	\$2,674

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Excludes available-for-sale notes with amortized cost of \$693 million (fair value, \$695 million) and (1) held-to-maturity notes with amortized cost of \$3,850 million (fair value, \$4,069 million), which have been offset with the associated payables under a netting agreement.

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 proceeds and related investment gains (losses), as well as losses on impairments of both fixed maturities and equity securities:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in millions)			
Fixed maturities, available-for-sale				
Proceeds from sales	\$7,626	\$7,460	\$15,044	\$16,038
Proceeds from maturities/repayments	4,618	5,847	9,713	10,706
Gross investment gains from sales, prepayments and maturities	442	476	974	901
Gross investment losses from sales and maturities	(42)	(83)	(97)	(235)
Fixed maturities, held-to-maturity				
Gross investment gains from prepayments	\$0	\$0	\$0	\$0
Proceeds from maturities/repayments	63	138	123	232
Equity securities, available-for-sale				
Proceeds from sales	\$1,564	\$1,316	\$2,553	\$2,481
Gross investment gains from sales	273	198	427	331
Gross investment losses from sales	(35)	(22)	(61)	(60)
Fixed maturity and equity security impairments				
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	\$(29)	\$(26)	\$(37)	\$(42)
Writedowns for impairments on equity securities	(11)	(7)	(17)	(17)

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

As discussed in Note 2 to the Company’s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014, a portion of certain other-than-temporary impairment (“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:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended June 30, 2015 (in millions)	Six Months Ended June 30, 2015
Balance, beginning of period	\$773	\$781
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(15	) (28
Credit loss impairments previously recognized on securities impaired to fair value during the period ⁽¹⁾	(12	) (13
Credit loss impairments recognized in the current period on securities not previously impaired	0	3
Additional credit loss impairments recognized in the current period on securities previously impaired	2	2
Increases due to the passage of time on previously recorded credit losses	7	13
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(4	) (7
Balance, end of period	\$751	\$751
	Three Months Ended June 30, 2014 (in millions)	Six Months Ended June 30, 2014
Balance, beginning of period	\$838	\$968
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(59	) (199
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	10	12
Additional credit loss impairments recognized in the current period on securities previously impaired	0	4
Increases due to the passage of time on previously recorded credit losses	9	18
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(4	) (9
Balance, end of period	\$794	\$794

⁽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 Supporting Insurance Liabilities

The following table sets forth the composition of "Trading account assets supporting insurance liabilities" as of the dates indicated:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2015		December 31, 2014	
	Amortized Cost (in millions)	Fair Value	Amortized Cost	Fair Value
Short-term investments and cash equivalents	\$423	\$422	\$196	\$196
Fixed maturities:				
Corporate securities	12,251	12,566	11,922	12,439
Commercial mortgage-backed securities	2,055	2,078	2,505	2,546
Residential mortgage-backed securities(1)	1,488	1,508	1,640	1,676
Asset-backed securities(2)	1,417	1,440	1,180	1,198
Foreign government bonds	635	647	621	650
U.S. government authorities and agencies and obligations of U.S. states	290	333	303	372
Total fixed maturities	18,136	18,572	18,171	18,881
Equity securities	974	1,273	896	1,186
Total trading account assets supporting insurance liabilities	\$19,533	\$20,267	\$19,263	\$20,263

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

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

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within "Other income," was \$(276) million and \$201 million during the three months ended June 30, 2015 and 2014, respectively, and \$(266) million and \$267 million during the six months ended June 30, 2015 and 2014, respectively.

Other Trading Account Assets

The following table sets forth the composition of the "Other trading account assets" as of the dates indicated:

	June 30, 2015		December 31, 2014	
	Amortized Cost (in millions)	Fair Value	Amortized Cost	Fair Value
Short-term investments and cash equivalents	\$61	\$62	\$27	\$27
Fixed maturities	9,487	9,475	8,306	8,282
Equity securities	1,027	1,135	992	1,105
Other	12	16	7	11
Subtotal	\$10,587	10,688	\$9,332	9,425
Derivative instruments		2,061		1,449
Total other trading account assets		\$12,749		\$10,874

The net change in unrealized gains (losses) from other trading account assets, excluding derivative instruments, still held at period end, recorded within "Other income," was \$61 million and \$9 million during the three months ended June 30, 2015 and 2014, respectively, and \$9 million and \$35 million during the six months ended June 30, 2015 and 2014, respectively.

Concentrations of Financial Instruments

The Company monitors its concentrations of financial instruments on an ongoing basis, and mitigates credit risk by maintaining a diversified investment portfolio which limits exposure to any one issuer.

As of both June 30, 2015 and December 31, 2014, the Company's exposure to concentrations of credit risk of single issuers greater than 10% of the Company's stockholders' equity included securities of the U.S. government, certain U.S. government agencies and certain securities guaranteed by the U.S. government, as well as the securities disclosed below.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2015		December 31, 2014	
	Amortized Cost (in millions)	Fair Value	Amortized Cost	Fair Value
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	\$50,735	\$57,562	\$52,703	\$60,379
Fixed maturities, held-to-maturity	783	940	801	981
Trading account assets supporting insurance liabilities	475	482	457	470
Other trading account assets	35	35	36	36
Short-term investments	0	0	0	0
Cash equivalents	163	163	0	0
Total	\$52,191	\$59,182	\$53,997	\$61,866

	June 30, 2015		December 31, 2014	
	Amortized Cost (in millions)	Fair Value	Amortized Cost	Fair Value
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	\$7,207	\$8,815	\$6,927	\$8,438
Fixed maturities, held-to-maturity	0	0	0	0
Trading account assets supporting insurance liabilities	44	45	49	50
Other trading account assets	0	0	0	0
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0
Total	\$7,251	\$8,860	\$6,976	\$8,488

Commercial Mortgage and Other Loans

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2015		December 31, 2014		
	Amount (in millions)	% of Total	Amount (in millions)	% of Total	
Commercial mortgage and agricultural property loans by property type:					
Office	\$ 10,905	23.2	% \$ 9,612	21.5	%
Retail	8,810	18.8	8,765	19.6	
Apartments/Multi-Family	11,098	23.6	10,369	23.2	
Industrial	7,542	16.1	7,628	16.9	
Hospitality	2,451	5.2	2,270	5.1	
Other	3,587	7.6	3,659	8.2	
Total commercial mortgage loans	44,393	94.5	42,303	94.5	
Agricultural property loans	2,604	5.5	2,445	5.5	
Total commercial mortgage and agricultural property loans by property type	46,997	100.0	% 44,748	100.0	%
Valuation allowance	(97	)	(105)	
Total net commercial mortgage and agricultural property loans by property type	46,900		44,643		
Other loans:					
Uncollateralized loans	1,038		1,092		
Residential property loans	327		392		
Other collateralized loans	315		319		
Total other loans	1,680		1,803		
Valuation allowance	(11	)	(14)	
Total net other loans	1,669		1,789		
Total commercial mortgage and other loans(1)	\$ 48,569		\$ 46,432		

(1) Includes loans held at fair value.

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States (with the largest concentrations in California (26%), New York (9%) and Texas (9%)) and Asia at June 30, 2015.

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

	June 30, 2015					Total	
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans		
Allowance for credit losses, beginning of year	\$ 104	\$ 1	\$ 5	\$ 0	\$ 9	\$ 119	
Addition to (release of) allowance for losses	(8) 0	(2) 0	0	(10)
Charge-offs, net of recoveries	0	0	0	0	0	0	
Change in foreign exchange	0	0	0	0	(1) (1)
Total ending balance	\$ 96	\$ 1	\$ 3	\$ 0	\$ 8	\$ 108	

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2014					Total
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	
	(in millions)					
Allowance for credit losses, beginning of year	\$188	\$7	\$6	\$3	\$12	\$216
Addition to (release of) allowance for losses	(77)	(6)	(1)	(1)	(2)	(87)
Charge-offs, net of recoveries	(7)	0	0	(2)	0	(9)
Change in foreign exchange	0	0	0	0	(1)	(1)
Total ending balance	\$104	\$1	\$5	\$0	\$9	\$119

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, 2015					Total
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	
	(in millions)					
Allowance for Credit Losses:						
Individually evaluated for impairment	\$3	\$0	\$0	\$0	\$0	\$3
Collectively evaluated for impairment	93	1	3	0	8	105
Loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	\$96	\$1	\$3	\$0	\$8	\$108
Recorded Investment(1):						
Gross of reserves: individually evaluated for impairment	\$254	\$4	\$0	\$1	\$2	\$261
Gross of reserves: collectively evaluated for impairment	44,139	2,600	327	314	1,036	48,416
Gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	\$44,393	\$2,604	\$327	\$315	\$1,038	\$48,677

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2014(1)					Total
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	
	(in millions)					
Allowance for Credit Losses:						
Individually evaluated for impairment	\$8	\$0	\$0	\$0	\$0	\$8
Collectively evaluated for impairment	96	1	5	0	9	111
Loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	\$104	\$1	\$5	\$0	\$9	\$119
Recorded Investment(2):						
Gross of reserves: individually evaluated for impairment	\$247	\$4	\$0	\$1	\$2	\$254
Gross of reserves: collectively evaluated for impairment	42,056	2,441	392	318	1,090	46,297
Gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	\$42,303	\$2,445	\$392	\$319	\$1,092	\$46,551

(1) Prior period's amounts are presented on a basis consistent with current period presentation.

(2) Recorded investment reflects the balance sheet carrying value gross of related allowance.

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:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2015			Average	Interest
	Recorded	Unpaid	Related	Recorded	Income
	Investment(1)	Principal	Allowance	Investment	Recognized(3)
		Balance		Before	
				Allowance(2)	
	(in millions)				
With no related allowance recorded:					
Commercial mortgage loans	\$0	\$0	\$0	\$0	\$0
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	1	0	0	0
Total with no related allowance	\$0	\$1	\$0	\$0	\$0
With an allowance recorded:					
Commercial mortgage loans	\$55	\$55	\$3	\$79	\$1
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	0	0	0	0
Total with related allowance	\$55	\$55	\$3	\$79	\$1
Total:					
Commercial mortgage loans	\$55	\$55	\$3	\$79	\$1
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	1	0	0	0
Total	\$55	\$56	\$3	\$79	\$1

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2014			Average	Interest
	Recorded	Unpaid	Related	Recorded	Income
	Investment(1)	Principal	Allowance	Investment	Recognized(3)
		Balance		Before	
				Allowance(2)	
	(in millions)				
With no related allowance recorded:					
Commercial mortgage loans	\$8	\$8	\$0	\$16	\$1
Agricultural property loans	4	4	0	4	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	1	0	0	0
Total with no related allowance	\$12	\$13	\$0	\$20	\$1
With an allowance recorded:					
Commercial mortgage loans	\$76	\$76	\$8	\$82	\$6
Agricultural property loans	0	0	0	0	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	3	1
Uncollateralized loans	0	0	0	0	0
Total with related allowance	\$76	\$76	\$8	\$85	\$7
Total:					
Commercial mortgage loans	\$84	\$84	\$8	\$98	\$7
Agricultural property loans	4	4	0	4	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	3	1
Uncollateralized loans	0	1	0	0	0
Total	\$88	\$89	\$8	\$105	\$8

(1) Recorded investment reflects the balance sheet 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 net carrying value of commercial and other loans held for sale by the Company as of June 30, 2015 and December 31, 2014, was \$391 million and \$380 million, respectively. In all of these transactions, the Company pre-arranges that it will sell the loan to an investor. As of both June 30, 2015 and December 31, 2014, all of the Company's commercial and other loans held for sale were collateralized, with collateral primarily consisting of apartment complexes.

The following tables set forth certain key credit quality indicators as of June 30, 2015, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

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	Debt Service Coverage Ratio—June 30, 2015			Total
	Greater than 1.2X (in millions)	1.0X to <1.2X	Less than 1.0X	
Loan-to-Value Ratio				
0%-59.99%	\$23,344	\$429	\$275	\$24,048
60%-69.99%	13,434	444	79	13,957
70%-79.99%	5,440	448	60	5,948
Greater than 80%	135	139	166	440
Total commercial mortgage loans	\$42,353	\$1,460	\$580	\$44,393

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Agricultural property loans

	Debt Service Coverage Ratio—June 30, 2015			Total
	Greater than 1.2X (in millions)	1.0X to <1.2X	Less than 1.0X	
Loan-to-Value Ratio				
0%-59.99%	\$2,290	\$148	\$2	\$2,440
60%-69.99%	164	0	0	164
70%-79.99%	0	0	0	0
Greater than 80%	0	0	0	0
Total agricultural property loans	\$2,454	\$148	\$2	\$2,604

Total commercial mortgage and agricultural property loans

	Debt Service Coverage Ratio—June 30, 2015			Total
	Greater than 1.2X (in millions)	1.0X to <1.2X	Less than 1.0X	
Loan-to-Value Ratio				
0%-59.99%	\$25,634	\$577	\$277	\$26,488
60%-69.99%	13,598	444	79	14,121
70%-79.99%	5,440	448	60	5,948
Greater than 80%	135	139	166	440
Total commercial mortgage and agricultural property loans	\$44,807	\$1,608	\$582	\$46,997

The following tables set forth certain key credit quality indicators as of December 31, 2014, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

	Debt Service Coverage Ratio—December 31, 2014			Total
	Greater than 1.2X (in millions)	1.0X to <1.2X	Less than 1.0X	
Loan-to-Value Ratio				
0%-59.99%	\$22,557	\$637	\$207	\$23,401
60%-69.99%	12,563	500	237	13,300
70%-79.99%	4,354	664	21	5,039
Greater than 80%	234	127	202	563
Total commercial mortgage loans	\$39,708	\$1,928	\$667	\$42,303

Agricultural property loans

Debt Service Coverage Ratio—December 31, 2014			
Greater than	1.0X to <1.2X	Less than	Total

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	1.2X (in millions)		1.0X	
Loan-to-Value Ratio				
0%-59.99%	\$2,152	\$ 140	\$2	\$2,294
60%-69.99%	151	0	0	151
70%-79.99%	0	0	0	0
Greater than 80%	0	0	0	0
Total agricultural property loans	\$2,303	\$ 140	\$2	\$2,445

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Total commercial mortgage and agricultural property loans

	Debt Service Coverage Ratio—December 31, 2014			
	Greater than 1.2X (in millions)	1.0X to <1.2X	Less than 1.0X	Total
Loan-to-Value Ratio				
0%-59.99%	\$24,709	\$777	\$209	\$25,695
60%-69.99%	12,714	500	237	13,451
70%-79.99%	4,354	664	21	5,039
Greater than 80%	234	127	202	563
Total commercial mortgage and agricultural property loans	\$42,011	\$2,068	\$669	\$44,748

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, 2015

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	\$44,344	\$49	\$0	\$0	\$0	\$49	\$44,393	\$103
Agricultural property loans	2,603	0	0	0	1	1	2,604	1
Residential property loans	315	4	1	0	7	12	327	7
Other collateralized loans	314	0	0	0	1	1	315	1
Uncollateralized loans	1,038	0	0	0	0	0	1,038	0
Total	\$48,614	\$53	\$1	\$0	\$9	\$63	\$48,677	\$112

December 31, 2014

	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	\$42,239	\$62	\$0	\$0	\$2	\$64	\$42,303	\$101
Agricultural property loans	2,443	0	1	0	1	2	2,445	1
Residential property loans	375	7	2	0	8	17	392	8
Other collateralized loans	319	0	0	0	0	0	319	0
Uncollateralized loans	1,092	0	0	0	0	0	1,092	0
Total	\$46,468	\$69	\$3	\$0	\$11	\$83	\$46,551	\$110

See Note 2 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014, for further discussion regarding nonaccrual status loans.

For both the three and six months ended June 30, 2015, there were \$53 million of commercial mortgage and other loans acquired, other than those through direct origination and there were \$18 million of commercial mortgage and other loans sold, other than those classified as held-for-sale. For both the three and six months ended June 30, 2014, 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, other than those classified as held-for-sale.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The Company's commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. As of June 30, 2015 and December 31, 2014, the Company had no significant commitments to fund to borrowers that have been involved in a troubled debt restructuring. During the three months and six months ended June 30, 2015 and 2014, there were no new troubled debt restructurings related to commercial mortgage loans, and no payment defaults on commercial mortgage and other loans that were modified as a troubled debt restructuring within the 12 months preceding each respective period. For additional information relating to the accounting for troubled debt restructurings, see Note 2 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014.

As of June 30, 2015 and December 31, 2014, 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, 2015 and 2014, was from the following sources:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in millions)			
Fixed maturities, available-for-sale ⁽¹⁾	\$2,611	\$2,669	\$5,194	\$5,286
Fixed maturities, held-to-maturity ⁽¹⁾	51	42	100	82
Equity securities, available-for-sale	81	105	177	189
Trading account assets	294	259	581	517
Commercial mortgage and other loans	556	522	1,100	1,020
Policy loans	154	158	308	312
Short-term investments and cash equivalents	11	8	24	17
Other long-term investments	137	175	381	517
Gross investment income	3,895	3,938	7,865	7,940
Less: investment expenses	(224	) (184	) (425	) (348
Net investment income	\$3,671	\$3,754	\$7,440	\$7,592

⁽¹⁾ Includes income on credit-linked notes which are reported on the same financial line item as related surplus notes, as conditions are met for right-of-offset.

The Company had \$238 million and \$218 million of investments in low-income housing tax credit limited partnerships and has committed to fund \$52 million and \$67 million as of June 30, 2015 and December 31, 2014, respectively.

Generally, the Company uses the equity method of accounting for these investments. The Company recognized \$1 million and \$6 million of equity method losses and utilized \$0 million and \$8 million of tax credits associated with these investments for the three months ended June 30, 2015 and 2014, respectively. The company recognized \$3 million and \$8 million of equity method losses and utilized \$9 million and \$15 million of tax credits associated with these investments for the six months ended June 30, 2015 and 2014, respectively. There were no impairment losses from forfeiture or ineligibility of tax credits.

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three and six months ended June 30, 2015 and 2014, were from the following sources:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2015	2014	2015	2014	
	(in millions)				
Fixed maturities	\$371	\$367	\$840	\$624	
Equity securities	227	169	348	254	
Commercial mortgage and other loans	20	8	31	16	
Investment real estate	14	0	38	0	
Joint ventures and limited partnerships	(4	) 0	(9	) 1
Derivatives(1)	(503) 60	1,235	(85)
Other	4	5	7	7	
Realized investment gains (losses), net	\$129	\$609	\$2,490	\$817	

(1)Includes the offset of hedged items in qualifying effective hedge relationships prior to maturity or termination.

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,	December 31,	
	2015	2014	
	(in millions)		
Fixed maturity securities on which an OTTI loss has been recognized	\$355	\$349	
Fixed maturity securities, available-for-sale—all other	26,888	33,625	
Equity securities, available-for-sale	3,031	2,940	
Derivatives designated as cash flow hedges(1)	702	206	
Other investments(2)	(10) (7)
Net unrealized gains (losses) on investments	\$30,966	\$37,113	

(1)See Note 14 for more information on cash flow hedges.

As of June 30, 2015, there were \$0 million of net unrealized losses on held-to-maturity securities that were (2)previously transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in “Other assets.”

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:

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2015					
	Less than twelve months	Gross Unrealized Losses	Twelve months or more	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$1,563	\$20	\$0	\$0	\$1,563	\$20
Obligations of U.S. states and their political subdivisions	3,060	105	8	1	3,068	106
Foreign government bonds	2,498	72	1,314	90	3,812	162
Corporate securities	36,276	1,984	5,642	588	41,918	2,572
Commercial mortgage-backed securities	2,983	38	550	12	3,533	50
Asset-backed securities	2,535	7	2,714	93	5,249	100
Residential mortgage-backed securities	529	4	122	3	651	7
Total	\$49,444	\$2,230	\$10,350	\$787	\$59,794	\$3,017
Equity securities, available-for-sale	\$1,855	\$87	\$6	\$1	\$1,861	\$88

(1) Includes \$84 million of fair value and \$2 million of gross unrealized losses at June 30, 2015, on securities classified as held-to-maturity, a portion of which is not reflected in AOCI.

	December 31, 2014					
	Less than twelve months	Gross Unrealized Losses	Twelve months or more	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$2,145	\$5	\$10	\$0	\$2,155	\$5
Obligations of U.S. states and their political subdivisions	105	1	89	2	194	3
Foreign government bonds	839	26	1,052	91	1,891	117
Corporate securities	11,326	401	13,346	654	24,672	1,055
Commercial mortgage-backed securities	1,299	6	1,746	33	3,045	39
Asset-backed securities	3,417	16	3,229	118	6,646	134
Residential mortgage-backed securities	35	0	194	3	229	3
Total	\$19,166	\$455	\$19,666	\$901	\$38,832	\$1,356
Equity securities, available-for-sale	\$1,670	\$82	\$9	\$1	\$1,679	\$83

(1) Includes \$91 million of fair value and \$1 million of gross unrealized losses at December 31, 2014, on securities classified as held-to-maturity, a portion of which is not reflected in AOCI.

The gross unrealized losses on fixed maturity securities at June 30, 2015 and December 31, 2014, are composed of \$2,772 million and \$1,156 million, related to high or highest quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and \$245 million and \$200 million, related to other than high or highest quality securities based on NAIC or equivalent rating, respectively. At June 30, 2015, the \$787 million of gross unrealized losses of twelve months or more were concentrated in the energy, consumer non-cyclical and basic industry sectors of the Company’s corporate securities. At December 31, 2014, the \$901 million of gross unrealized losses of twelve months or more were concentrated in the energy, consumer non-cyclical and utility sectors of the Company’s corporate securities. In accordance with its policy described in Note 2 to the Company’s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

December 31, 2014, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at June 30, 2015 or December 31, 2014. 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 foreign currency exchange rate movements and general credit spread widening. At June 30, 2015, 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 its remaining amortized cost basis.

At June 30, 2015, \$13 million of the gross unrealized losses on equity securities represented declines in value of greater than 20%, \$9 million of which had been in that position for less than six months. At December 31, 2014, \$13 million of the gross unrealized losses on equity securities represented declines in value of greater than 20%, all of which had been in that position for less than six months. In accordance with its policy described in Note 2 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2014, the Company concluded that an adjustment for other-than-temporary impairments for these equity securities was not warranted at June 30, 2015 or December 31, 2014.

In the normal course of business, the Company sells securities under agreements to repurchase and enters into securities lending transactions. The following table sets forth the composition of repurchase agreements as of the date indicated.

	June 30, 2015				Total
	Remaining Contractual Maturity of the Agreements				
	Overnight & Continuous (in millions)	Up to 30 Days	30 to 90 Days	Greater than 90 Days	
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$3,109	\$3,541	\$263	\$0	\$6,913
Obligations of U.S. states and their political subdivisions	0	0	0	0	0
Foreign government bonds	0	0	0	0	0
Corporate securities	20	0	0	0	20
Asset-backed securities	0	0	0	0	0
Commercial mortgage-backed securities	0	0	0	0	0
Residential mortgage-backed securities	404	526	0	0	930
Equity securities	0	0	0	0	0
Total repurchase agreements	\$3,533	\$4,067	\$263	\$0	\$7,863

The following table sets forth the composition of securities lending transactions as of the date indicated.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2015				Total
	Remaining Contractual Maturity of the Agreements				
	Overnight & Continuous (in millions)	Up to 30 Days	30 to 90 Days	Greater than 90 Days	
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$299	\$0	\$0	\$0	\$299
Obligations of U.S. states and their political subdivisions	16	0	0	0	16
Foreign government bonds	323	0	0	0	323
Corporate securities	2,498	128	0	0	2,626
Asset-backed securities	0	0	0	0	0
Commercial mortgage-backed securities	17	0	0	0	17
Residential mortgage-backed securities	0	262	0	0	262
Equity securities	265	0	0	0	265
Total securities lending transactions	\$3,418	\$390	\$0	\$0	\$3,808

5. VARIABLE INTEREST ENTITIES

In the normal course of its activities, the Company enters into relationships with various special-purpose entities and other entities that are deemed to be variable interest entities (“VIEs”). A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control activities of the entity, the obligation to absorb the entity’s expected losses and the right to receive the entity’s expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE.

If the Company determines that it is the VIE’s “primary beneficiary” it consolidates the VIE. There are currently two models for determining whether or not the Company is the “primary beneficiary” of a VIE. The first (the “Investment Company Model”) relates to those VIEs that have the characteristics of an investment company and for which certain other conditions are true. These conditions are that (1) the Company does not have the implicit or explicit obligation to fund losses of the VIE and (2) the VIE is not a securitization entity, asset-backed financing entity or an entity that was formerly considered a qualified special-purpose entity. In this model the Company is the primary beneficiary if it stands to absorb a majority of the VIE’s expected losses or to receive a majority of the VIE’s expected residual returns.

For all other VIEs, the Company is the primary beneficiary if the Company has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant.

Consolidated Variable Interest Entities

The Company is the investment manager of certain asset-backed investment vehicles commonly referred to as collateralized loan obligations (“CLOs”) and certain other vehicles for which the Company earns fee income for investment management services, including certain investment structures in which the Company’s asset management business invests with other co-investors in investment funds referred to as feeder funds. The Company may sell or

syndicate investments through these vehicles, principally as part of the strategic investing activity of the Company's asset management businesses. Additionally, the Company may invest in securities issued by these vehicles. CLOs raise capital by issuing debt securities, and use the proceeds to purchase investments, typically interest-bearing financial instruments. The Company has analyzed these relationships and determined that for certain CLOs and other investment structures it is the primary beneficiary and consolidates these entities. This analysis includes a review of (1) the Company's rights and responsibilities as investment manager, (2) fees received by the Company and (3) other interests (if any) held by the Company. The assets of these VIEs are restricted and must be used first to settle liabilities of the VIE. The Company is not required to provide, and has not provided, material financial or other support to any of these VIEs.

Additionally, the Company is the primary beneficiary of certain VIEs in which the Company has invested, as part of its investment activities, but for which it is not the investment manager. These include structured investments issued by a VIE that manages yen-denominated investments coupled with cross-currency coupon swap agreements thereby creating synthetic dual

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

currency investments. The Company's involvement in the structuring of these investments combined with its economic interest indicates that the Company is the primary beneficiary. The Company has not provided material financial support or other support that was not contractually required to these VIEs.

The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs are reported. The liabilities primarily comprise obligations under debt instruments issued by the VIEs that are non-recourse to the Company. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIEs.

	Consolidated VIEs for Which the Company is the Investment Manager		Other Consolidated VIEs	
	June 30, 2015 (in millions)	December 31, 2014	June 30, 2015	December 31, 2014
Fixed maturities, available-for-sale	\$49	\$44	\$99	\$104
Fixed maturities, held-to-maturity	0	0	747	763
Trading account assets supporting insurance liabilities	0	0	10	11
Other trading account assets	8,402	6,943	0	0
Commercial mortgage and other loans	13	13	300	300
Other long-term investments	0	0	173	159
Cash and cash equivalents	400	623	1	0
Accrued investment income	46	39	3	3
Other assets	174	166	0	0
Total assets of consolidated VIEs	\$9,084	\$7,828	\$1,333	\$1,340
Notes issued by consolidated VIEs	\$7,455	\$6,058	\$0	\$0
Other liabilities	521	674	(1	) 1
Total liabilities of consolidated VIEs	\$7,976	\$6,732	\$(1	) \$1

As included in the table above, notes issued by consolidated VIEs are classified in the line item on the Unaudited Interim Consolidated Statements of Financial Position titled, "Notes issued by consolidated VIEs." Recourse is limited to the assets of the respective VIE and does not extend to the general credit of Prudential Financial. As of June 30, 2015, the maturities of these obligations were greater than five years.

In addition, not reflected in the table above, the Company has created a trust that is a VIE, to facilitate Prudential Insurance's Funding Agreement Notes Issuance Program ("FANIP"). The trust issues medium-term notes secured by funding agreements issued to the trust by Prudential Insurance with the proceeds of such notes. The trust is the beneficiary of an indemnity agreement with the Company that provides that the Company is responsible for costs related to the notes issued, with limited exceptions. As a result, the Company has determined that it is the primary beneficiary of the trust, which is therefore consolidated.

The funding agreements represent an intercompany transaction that is eliminated upon consolidation. However, in recognition of the security interest in such funding agreements, the trust's medium-term note liability of \$2,705 million at both June 30, 2015 and December 31, 2014 is classified within "Policyholders' account balances." Creditors of the trust have recourse to Prudential Insurance if the trust fails to make contractual payments on the medium-term notes. The Company has not provided material financial or other support to the trust that was not contractually required.

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager. These VIEs consist primarily of investment funds for which the Company utilizes the Investment Company Model to assess consolidation. Accordingly, the Company has determined that it is not the primary beneficiary of these entities because it does not stand to absorb a majority of the VIE's expected losses or to receive a majority of the VIE's expected residual returns. For all other investment structures, the Company has determined that it is not the primary beneficiary as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

be potentially significant. The Company's maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its investment in the VIEs, which was \$174 million and \$137 million at June 30, 2015 and December 31, 2014, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Other trading account assets, at fair value" and "Other long-term investments." The fair value of assets held within these unconsolidated VIEs was \$5,982 million and \$6,973 million as of June 30, 2015 and December 31, 2014, respectively. There are no liabilities associated with these unconsolidated VIEs on the Company's Unaudited Interim Consolidated Statements of Financial Position.

In the normal course of its activities, the Company will invest in joint ventures and limited partnerships. These ventures include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has determined that it is not required to consolidate these entities because either: (1) it does not control them or (2) it does not have the obligation to absorb losses of the entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. The Company classifies these investments as "Other long-term investments" and its maximum exposure to loss associated with these entities was \$7,482 million and \$7,545 million as of June 30, 2015 and December 31, 2014, respectively.

In addition, in the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the investment manager. These structured investments typically invest in fixed income investments and are managed by third parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company's maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. See Note 4 for details regarding the carrying amounts and classification of these assets. The Company has not provided material financial or other support that was not contractually required to these structures. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not control these entities.

6. CLOSED BLOCK

On the date of demutualization, Prudential Insurance established a Closed Block for certain individual life insurance policies and annuities issued by Prudential Insurance in the U.S. The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. The Closed Block forms the principal component of the Closed Block division.

The policies included in the Closed Block are specified individual life insurance policies and individual annuity contracts that were in force on the effective date of the Plan of Reorganization and for which Prudential Insurance is currently paying or expects to pay experience-based policy dividends. Assets have been allocated to the Closed Block in an amount that has been determined to produce cash flows which, together with revenues from policies included in the Closed Block, are expected to be sufficient to support obligations and liabilities relating to these policies, including provision for payment of benefits, certain expenses and taxes and to provide for continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continues. To the extent that, over time, cash flows from the assets allocated to the Closed Block and claims and other experience related to the Closed Block are, in the aggregate, more or less favorable than what was assumed when the Closed Block was established, total dividends paid to Closed Block policyholders may be greater than or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to Closed Block policyholders and will not be available to stockholders. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from Prudential Insurance's assets outside of the Closed Block.

The Closed Block will continue in effect as long as any policy in the Closed Block remains in force unless, with the consent of the New Jersey insurance regulator, it is terminated earlier.

The excess of Closed Block liabilities over Closed Block assets at the date of the demutualization (adjusted to eliminate the impact of related amounts in AOCI) represented the estimated maximum future earnings at that date from the Closed Block expected to result from operations attributed to the Closed Block after income taxes. In establishing the Closed Block, the Company developed an actuarial calculation of the timing of such maximum future earnings. If actual cumulative earnings of the Closed Block from inception through the end of any given period are greater than the expected cumulative earnings, only the expected earnings will be recognized in income. Any excess of actual cumulative earnings over expected cumulative earnings will represent undistributed accumulated earnings attributable to policyholders, which are recorded as a policyholder dividend obligation. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. If the actual cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income. However, the Company may reduce

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

policyholder dividend scales, which would be intended to increase future actual earnings until the actual cumulative earnings equaled the expected cumulative earnings.

As of June 30, 2015 and December 31, 2014, the Company recognized a policyholder dividend obligation of \$1,766 million and \$1,558 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of \$3,715 million and \$5,053 million at June 30, 2015 and December 31, 2014, respectively, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

Closed Block liabilities and assets designated to the Closed Block, as well as maximum future earnings to be recognized from Closed Block liabilities and Closed Block assets, are as follows:

	June 30, 2015 (in millions)	December 31, 2014
Closed Block liabilities		
Future policy benefits	\$49,665	\$49,863
Policyholders' dividends payable	918	931
Policyholders' dividend obligation	5,481	6,612
Policyholders' account balances	5,272	5,310
Other Closed Block liabilities	4,833	5,084
Total Closed Block liabilities	66,169	67,800
Closed Block assets		
Fixed maturities, available-for-sale, at fair value	39,118	40,629
Other trading account assets, at fair value	310	302
Equity securities, available-for-sale, at fair value	3,230	3,522
Commercial mortgage and other loans	9,839	9,472
Policy loans	4,848	4,914
Other long-term investments	2,837	2,765
Short-term investments	1,099	1,225
Total investments	61,281	62,829
Cash and cash equivalents	987	1,201
Accrued investment income	518	527
Other Closed Block assets	495	332
Total Closed Block assets	63,281	64,889
Excess of reported Closed Block liabilities over Closed Block assets	2,888	2,911
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	3,701	5,040
Allocated to policyholder dividend obligation	(3,715)	(5,053)
Future earnings to be recognized from Closed Block assets and Closed Block liabilities	\$2,874	\$2,898

Information regarding the policyholder dividend obligation is as follows:

Six Months
Ended
June 30, 2015
(in millions)

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Balance, January 1	\$6,612	
Impact from earnings allocable to policyholder dividend obligation	208	
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	(1,339)
Balance, June 30	\$5,481	

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Closed Block revenues and benefits and expenses for the three and six months ended June 30, 2015 and 2014, were as follows:

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	2014	2014	2015	2014
	(in millions)			
Revenues				
Premiums	\$701	\$711	\$1,335	\$1,350
Net investment income	642	683	1,351	1,404
Realized investment gains (losses), net	166	369	539	504
Other income	18	19	21	34
Total Closed Block revenues	1,527	1,782	3,246	3,292
Benefits and Expenses				
Policyholders' benefits	895	911	1,716	1,703
Interest credited to policyholders' account balances	34	33	67	67
Dividends to policyholders	423	688	1,187	1,265
General and administrative expenses	107	111	215	225
Total Closed Block benefits and expenses	1,459	1,743	3,185	3,260
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	68	39	61	32
Income tax expense (benefit)	57	33	39	21
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	11	6	22	11
Income (loss) from discontinued operations, net of taxes	0	0	0	0
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	\$11	\$6	\$22	\$11

7. EQUITY

The changes in the number of shares of Common Stock issued, held in treasury and outstanding, are as follows for the periods indicated:

	Common Stock		
	Issued	Held In Treasury	Outstanding
	(in millions)		
Balance, December 31, 2014	660.1	205.3	454.8
Common Stock issued	0.0	0.0	0.0
Common Stock acquired	0.0	6.0	(6.0
Stock-based compensation programs(1)	0.0	(3.1	) 3.1
Balance, June 30, 2015	660.1	208.2	451.9

(1) Represents net shares issued from treasury pursuant to the Company's stock-based compensation program.

In June 2014, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to \$1.0 billion of its outstanding Common Stock from July 1, 2014 through June 30, 2015. As of June 30, 2015, 11.7 million shares of the Company's Common Stock were repurchased under this authorization at a total cost of \$1.0 billion, of which 6.0 million shares were repurchased in the first six months of 2015 at a total cost of \$500 million.

In June 2015, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to \$1.0 billion of its outstanding Common Stock from July 1, 2015 through June 30, 2016. The timing and amount of share repurchases are determined by management based upon market conditions and other considerations, and repurchases may be

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) under the Securities Exchange Act of 1934 (the “Exchange Act”). Numerous factors could affect the timing and amount of any future repurchases under the share repurchase authorization, including increased capital needs of the Company due to changes in regulatory capital requirements, opportunities for growth and acquisitions, and the effect of adverse market conditions on the segments.

Class B Stock

On December 1, 2014, Prudential Financial entered into a Share Repurchase Agreement with the holders of the Class B Stock to repurchase all of the 2.0 million outstanding shares of Class B Stock for an aggregate cash purchase price of \$650.8 million. As a result, all of the outstanding shares of Class B Stock were reclassified as “held in treasury” as of December 31, 2014, resulting in a reduction to “Total Prudential Financial, Inc. equity.” As discussed in Note 1, on January 2, 2015, the Company repurchased and canceled all of the shares of the Class B Stock, resulting in the elimination of the Class B Stock held in treasury, a \$483.8 million decrease in “Retained earnings” and a \$167.0 million decrease in “Additional paid-in capital.”

In accordance with the terms of the Share Repurchase Agreement, the holders of a majority of the Class B Stock have exercised their right to dispute the calculation of the purchase price. Accordingly, the final purchase price of the Class B Stock could change.

Accumulated Other Comprehensive Income (Loss)

The balance of and changes in each component of “Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc.” for the six months ended June 30, 2015 and 2014 are as follows:

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Net Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2014	\$ (975)	) \$ 19,251	\$ (2,226)	) \$ 16,050
Change in other comprehensive income before reclassifications	(110)	) (2,965)	) 10	(3,065)
Amounts reclassified from AOCI	1	(1,247)	) 96	(1,150)
Income tax benefit (expense)	88	1,523	(42)	) 1,569
Balance, June 30, 2015	\$ (996)	) \$ 16,562	\$ (2,162)	) \$ 13,404

Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.

	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Net Other Comprehensive Income (Loss)
	(in millions)			

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Balance, December 31, 2013	\$ (113) \$ 10,344	\$ (1,550) \$ 8,681	
Change in other comprehensive income before reclassifications	241	7,175	(3) 7,413	
Amounts reclassified from AOCI	(2) (856) 46	(812)
Income tax benefit (expense)	(47) (2,142) (16) (2,205)
Balance, June 30, 2014	\$ 79	\$ 14,521	\$ (1,523	) \$ 13,077

(1) Includes cash flow hedges of \$702 million and \$206 million as of June 30, 2015 and December 31, 2014, respectively, and \$(533) million and \$(446) million as of June 30, 2014 and December 31, 2013, respectively.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015		Affected line item in Consolidated Statement of Operations
	2014	2014	2014	2014	
(in millions)					
Amounts reclassified from AOCI(1)(2):					
Foreign currency translation adjustment:					
Foreign currency translation adjustments	\$(2)	\$1	\$(1)	\$2	Realized investment gains (losses), net
Total foreign currency translation adjustment	(2)	1	(1)	2	
Net unrealized investment gains (losses):					
Cash flow hedges—Interest Rate	(2)	(6)	(3)	(12)	(3)
Cash flow hedges—Currency/Interest rate	54)	(6)	62	(10)	(3)
Net unrealized investment gains (losses) on available-for-sale securities	599	536	1,188	878	
Total net unrealized investment gains (losses)	543	524	1,247	856	(4)
Amortization of defined benefit pension items:					
Prior service cost	4	5	7	11	(5)
Actuarial gain (loss)	(51)	(29)	(103)	(57)	(5)
Total amortization of defined benefit pension items	(47)	(24)	(96)	(46)	
Total reclassifications for the period	\$494	\$501	\$1,150	\$812	

(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 14 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 and other costs, future policy benefits and policyholders' dividends.

(5) See Note 10 for information on employee benefit plans.

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 "Other comprehensive income (loss)" those items that are included as part of "Net income" for a period that had been part of "Other comprehensive income (loss)" 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:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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

	Net Unrealized Gains (Losses) on Investments	Deferred Policy Acquisition Costs, Sales Inducements, and Value of Business Acquired	Future Policy Benefits and Policyholders' Account Balances	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2014	\$349	\$ (6)	\$ 3	\$ (32)	\$ (110)	\$ 204
Net investment gains (losses) on investments arising during the period	24				(9)	15
Reclassification adjustment for (gains) losses included in net income	(3)				1	(2)
Reclassification adjustment for OTTI losses excluded from net income(1)	(15)				5	(10)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		6			(2)	4
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances			8		(3)	5
Impact of net unrealized investment (gains) losses on policyholders' dividends				32	(11)	21
Balance, June 30, 2015	\$355	\$ 0	\$ 11	\$ 0	\$ (129)	\$ 237

(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.

All Other Net Unrealized Investment Gains and Losses in AOCI

Net Unrealized Gains (Losses) on Investments(1)	Deferred Policy Acquisition Cost, Deferred	Future Policy Benefits and	Policyholders' Dividends	Deferred Income Tax (Liability)	Accumulated Other Comprehensive
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		Sales Inducements, and Value of Business Acquired	Policyholders' Account Balances		Benefit	Income (Loss) Related To Net Unrealized Investment Gains (Losses)
	(in millions)					
Balance, December 31, 2014	\$36,764	\$ (1,455)	\$ (1,282)	\$ (5,036)	\$ (9,944)	\$ 19,047
Net investment gains (losses) on investments arising during the period	(4,924)				1,759	(3,165)
Reclassification adjustment for (gains) losses included in net income	(1,244)				444	(800)
Reclassification adjustment for OTTI losses excluded from net income(2)	15				(5)	10
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		609			(208)	401
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances			(26)		9	(17)
Impact of net unrealized investment (gains) losses on policyholders' dividends				1,306	(457)	849
Balance, June 30, 2015	\$30,611	\$ (846)	\$ (1,308)	\$ (3,730)	\$ (8,402)	\$ 16,325

(1) Includes cash flow hedges. See Note 14 for information on cash flow hedges.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

- (2) 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.

8. EARNINGS PER SHARE

From demutualization through December 31, 2014, the Company had two separate classes of common stock. The Common Stock reflected the performance of the Company’s former Financial Services Businesses and the Class B Stock reflected the performance of the Company’s former Closed Block Business. Earnings per share were calculated separately for each of these two classes of common stock and included a direct equity adjustment to modify the earnings available to each of the classes of common stock for the difference between the allocation of general and administrative expenses to each of the businesses and the cash flows between the businesses related to these expenses. Accordingly, earnings per share of Common Stock presented below for the three and six months ended June 30, 2014, reflect earnings attributable to the former Financial Services Businesses.

As discussed in Note 1, on January 2, 2015, Prudential Financial repurchased and canceled all of the 2.0 million shares of the Class B Stock. Accordingly, earnings per share of Common Stock presented below for the three and six months ended June 30, 2015, reflect the consolidated earnings of Prudential Financial. In addition, the Class B Repurchase resulted in the elimination of the separation of the former Financial Services Businesses and Closed Block Business. As a result, there was no direct equity adjustment recorded for the three and six months ended June 30, 2015.

Earnings per share of the Class B Stock for the three and six months ended June 30, 2014, is not presented herein as it is not meaningful due to the Class B Repurchase.

A reconciliation of the numerators and denominators of the basic and diluted per share computations of Common Stock based on the consolidated earnings of Prudential Financial for the three and six months ended June 30, 2015, is as follows:

	June 30, 2015			June 30, 2014		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income (loss) from continuing operations	\$ 1,459			\$ 3,505		
Less: Income (loss) attributable to noncontrolling interests	53			63		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	15			34		
Income (loss) from continuing operations attributable to Prudential Financial available to holders of Common Stock	\$ 1,391	452.6	\$ 3.07	\$ 3,408	453.4	\$ 7.52
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$ 15			\$ 34		

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Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	14			33		
Stock options		2.5			2.4	
Deferred and long-term compensation programs		0.8			0.9	
Exchangeable Surplus Notes	5	5.5		9	5.5	
Diluted earnings per share						
Income (loss) from continuing operations attributable to Prudential Financial available to holders of Common Stock	\$1,397	461.4	\$3.03	\$3,418	462.2	\$7.40

A reconciliation of the numerators and denominators of the basic and diluted per share computations of Common Stock based on earnings attributable to the former Financial Services Businesses for the three and six months ended June 30, 2014, is as follows:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2014			June 30, 2015		
	Three Months Ended	Weighted Average Shares	Per Share Amount	Six Months Ended	Weighted Average Shares	Per Share Amount
(in millions, except per share amounts)						
Basic earnings per share						
Income (loss) from continuing operations attributable to the Financial Services Businesses	\$1,068			\$2,300		
Direct equity adjustment	(3)			(5)		
Less: Income (loss) attributable to noncontrolling interests	23			34		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	10			21		
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$1,032	459.4	\$2.25	\$2,240	460.1	\$4.87
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$10			\$21		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	10			21		
Stock options		3.0			3.1	
Deferred and long-term compensation programs		0.7			0.8	
Exchangeable Surplus Notes	5	5.4		9	5.4	
Diluted earnings per share						
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$1,037	468.5	\$2.21	\$2,249	469.4	\$4.79

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings attributable to Prudential Financial are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. During periods of income from continuing operations available to holders of Common Stock, after direct equity adjustment as applicable, the calculation of earnings per share excludes the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of loss from continuing operations available to holders of Common Stock, after direct equity adjustment as applicable, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended June 30, 2015 and 2014, as applicable, were based on 4.5 million and 4.3 million of such awards, respectively, and for the six months ended June 30, 2015 and 2014, were based on 4.5 million and 4.3 million of such awards, respectively, weighted for the period they were outstanding.

Stock options and shares related to deferred and long-term compensation programs that are considered antidilutive are excluded from the computation of dilutive earnings per share. Stock options are considered antidilutive based on application of the treasury stock method or in the event of loss from continuing operations available to holders of Common Stock, after direct equity adjustment as applicable. Shares related to deferred and long-term compensation programs are considered antidilutive in the event of loss from continuing operations available to holders of Common Stock, after direct equity adjustment as applicable. For the three and six months ended June 30, 2015 and 2014, the number of stock options and shares related to deferred and long-term compensation programs that were considered antidilutive and were excluded from the computation of diluted earnings per share, weighted for the portion of the period they were outstanding, are as follows:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended June 30, 2015		2014	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	2.1	\$88.70	2.3	\$89.48
Antidilutive stock options due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		0.0	
Antidilutive shares due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		0.0	
Total antidilutive stock options and shares	2.1		2.3	
	Six Months Ended June 30, 2015		2014	
	Shares	Exercise Price Per Share	Shares	Exercise Price Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	2.4	\$87.92	2.1	\$89.88
Antidilutive stock options due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		0.0	
Antidilutive shares due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		0.0	
Total antidilutive stock options and shares	2.4		2.1	

In September 2009, the Company issued \$500 million of surplus notes with an interest rate of 5.36% per annum which are exchangeable at the option of the note holders for shares of Common Stock. The initial exchange rate for the surplus notes was 10.1235 shares of Common Stock per each \$1,000 principal amount of surplus notes, which represents an initial exchange price per share of Common Stock of \$98.78; however, the exchange rate is subject to customary anti-dilution adjustments. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes are outstanding, are added to the denominator, and interest expense, net of tax, is added to the numerator, if the overall effect is dilutive.

9. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

The table below presents the Company's short-term debt as of the dates indicated:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	June 30, 2015	December 31, 2014		
	(in millions)			
Commercial paper:				
Prudential Financial	\$ 141	\$ 97		
Prudential Funding, LLC	731	386		
Subtotal commercial paper	872	483		
Current portion of long-term debt(1)	2,749	3,356		
Total short-term debt(2)	\$3,621	\$3,839		
Supplemental short-term debt information:				
Portion of commercial paper borrowings due overnight	\$425	\$ 199		
Daily average commercial paper outstanding	\$1,064	\$1,409		
Weighted average maturity of outstanding commercial paper, in days	15	22		
Weighted average interest rate on outstanding short-term debt(3)	0.15	% 0.12	%	%

(1) Includes collateralized borrowings from the FHLBNY of \$280 million at both June 30, 2015 and December 31, 2014.

(2) Includes Prudential Financial debt of \$1,807 million and \$2,319 million at June 30, 2015 and December 31, 2014, respectively.

(3) Excludes the current portion of long-term debt.

Commercial Paper

Prudential Financial has a commercial paper program with an authorized capacity of \$3.0 billion. Prudential Financial's commercial paper borrowings have generally been used to fund the working capital needs of Prudential Financial's subsidiaries and provide short-term liquidity at Prudential Financial.

Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of Prudential Insurance, has a commercial paper program with an authorized capacity of \$7.0 billion. Prudential Funding commercial paper borrowings generally have served as an additional source of financing to meet the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the New Jersey Department of Banking and Insurance ("NJDOBI"). Prudential Funding maintains a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding's tangible net worth at a positive level. Additionally, Prudential Financial has issued a subordinated guarantee covering Prudential Funding's \$7.0 billion commercial paper program.

Federal Home Loan Bank of New York

Prudential Insurance is a member of the Federal Home Loan Bank of New York ("FHLBNY"). Membership allows Prudential Insurance access to the FHLBNY's financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements. Under applicable law, the funding agreements issued to the FHLBNY have priority claim status above debt holders of Prudential Insurance. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings. FHLBNY membership requires Prudential Insurance to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if any of Prudential Insurance's financial strength ratings

decline below A/A2/A Stable by S&P/Moody's/Fitch, respectively, and the FHLBNY does not receive written assurances from the NJDOBI regarding Prudential Insurance's solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Currently, there are no restrictions on the term of borrowings from the FHLBNY.

NJDOBI permits Prudential Insurance to pledge collateral to the FHLBNY in an amount of up to 5% of its prior year-end statutory net admitted assets, excluding separate account assets. Based on Prudential Insurance's statutory net admitted assets as of December 31, 2014, the 5% limitation equates to a maximum amount of pledged assets of \$8.9 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels) of approximately \$7.4 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY's discretion and to the availability of qualifying assets at Prudential Insurance.

As of June 30, 2015, Prudential Insurance had pledged assets with a fair value of \$2.4 billion supporting an aggregate outstanding collateralized advance of \$280 million that is in "Short-term debt" and matures in December 2015 and outstanding funding agreements totaling \$1.7 billion, which are included in "Policyholders' account balances." The fair value of qualifying assets that were available to Prudential Insurance, but not pledged, amounted to \$4.5 billion as of June 30, 2015.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company (“PRIAC”) is a member of the Federal Home Loan Bank of Boston (“FHLBB”). Membership allows PRIAC access to collateralized advances which will be classified in “Short-term debt” or “Long-term debt,” depending on the maturity date of the obligation. PRIAC’s membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings, depending on the maturity date of the obligation. As of June 30, 2015, PRIAC had no advances outstanding under the FHLBB facility.

Under Connecticut state insurance law, without the prior consent of the Connecticut Insurance Department, the amount of assets insurers may pledge to secure debt obligations is limited to the lesser of 5% of prior-year statutory admitted assets or 25% of prior-year statutory surplus, resulting in a maximum borrowing capacity for PRIAC under the FHLBB facility of approximately \$210 million as of June 30, 2015.

Credit Facilities

As of June 30, 2015, the Company maintained a syndicated, unsecured committed credit facility as described below.

Borrowers	Original Term	Expiration Date	Capacity (\$ in millions)	Amount Outstanding
Prudential Financial and Prudential Funding	5 years	Apr 2020	\$4,000	\$0

Borrowings under this credit facility may be used for general corporate purposes, and the Company expects that it may borrow under this facility from time to time to fund its working capital needs. In addition, amounts under this credit facility may be drawn in the form of standby letters of credit that can be used to meet the Company’s operating needs. The credit facility contains representations and warranties, covenants and events of default that are customary for facilities of this type, and borrowings under the facility are not contingent on the Company’s credit ratings nor subject to material adverse change clauses. Borrowings under this credit facility are conditioned on the Company’s maintenance of consolidated net worth of at least \$18.985 billion, which, under the facility, is calculated as U.S. GAAP equity, excluding AOCI, equity of noncontrolling interests and equity attributable to the Closed Block. As of June 30, 2015, the Company’s consolidated net worth exceeded this required minimum amount.

This credit facility, which was entered into on April 14, 2015, amends and restates the Company’s previously existing \$2.0 billion five-year credit facility and \$1.75 billion three-year credit facility.

Put Option Agreement for Senior Debt Issuance

In November 2013, Prudential Financial entered into a ten-year put option agreement with a Delaware trust upon the completion of the sale of \$1.5 billion of trust securities by that Delaware trust in a Rule 144A private placement. The trust invested the proceeds from the sale of the trust securities in a portfolio of principal and interest strips of U.S. Treasury securities. The put option agreement provides Prudential Financial the right to sell to the trust at any time up to \$1.5 billion of 4.419% senior notes due November 2023 and receive in exchange a corresponding amount of the principal and interest strips of the U.S. Treasury securities held by the trust. In return, the Company agreed to pay a semi-annual put premium to the trust at a rate of 1.777% per annum applied to the unexercised portion of the put option. The put option agreement with the trust provides Prudential Financial with a source of liquid assets.

The put option described above will be exercised automatically in full upon the Company's failure to make certain payments to the trust, such as paying the put option premium or reimbursing the trust for its expenses, if the Company's failure to pay is not cured within 30 days, and upon an event involving its bankruptcy. The Company is also required to exercise the put option if its consolidated stockholders' equity, calculated in accordance with GAAP but excluding AOCI, falls below \$7.0 billion, subject to adjustment in certain cases. The Company has a one-time right to unwind a prior voluntary exercise of the put option by repurchasing all of the senior notes then held by the trust in exchange for principal and interest strips of U.S. Treasury securities. Finally, any of the 4.419% senior notes that Prudential Financial issues may be redeemed prior to their maturity at par or, if greater, a make-whole price, following a voluntary exercise in full of the put option.

Long-term Debt

Surplus Notes

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

During the first quarter of 2015, the Company increased by \$262 million the principal amount of surplus notes outstanding under its captive financing facility initially established in December 2013 for the financing of non-economic reserves required under Guideline AXXX. As of June 30, 2015, an aggregate of \$2,100 million of surplus notes were outstanding under this facility and no credit-linked note payments have been required.

During the second quarter of 2015, the Company increased by \$308 million the principal amount of surplus notes outstanding under its captive financing facility initially established in December 2014 for the financing of non-economic reserves required under Regulation XXX. As of June 30, 2015, an aggregate of \$693 million of surplus notes were outstanding under this facility and no credit-linked note payments have been required.

Under each of the above transactions for the captive reinsurance subsidiaries, because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company's total consolidated borrowings on a net basis.

On February 18, 2015, Prudential Legacy Insurance Company of NJ ("PLIC") entered into a twenty-year financing facility with certain unaffiliated financial institutions and with Essex, LLC ("LLC"), a special-purpose company affiliate, pursuant to which PLIC may, at its option and subject to the satisfaction of customary conditions, issue and sell to LLC up to \$4.0 billion in aggregate principal amount of surplus notes in return for an equal principal amount of credit-linked notes issued by LLC. Upon issuance, PLIC would hold any credit-linked notes as assets to finance future statutory surplus needs within PLIC. As of June 30, 2015, there were no surplus notes outstanding under the facility.

Senior Notes

Medium-term notes. Prudential Financial maintains a medium-term notes program under its shelf registration statement with an authorized issuance capacity of \$20.0 billion. As of June 30, 2015, the outstanding balance of the company's medium-term notes was \$11.8 billion, a decrease of \$1.2 billion from December 31, 2014, due to maturities.

Retail medium-term notes. Prudential Financial also maintains a retail medium-term notes program, including the InterNotes® program, under its shelf registration statement with an authorized issuance capacity of \$5.0 billion. As of June 30, 2015, the outstanding balance of retail notes was \$496 million. Retail notes outstanding increased by \$121 million from December 31, 2014, primarily due to the issuance of \$179 million of notes offset by maturities of \$58 million of notes in 2015.

Mortgage debt. As of June 30, 2015, the Company's subsidiaries had mortgage debt of \$509 million that has recourse only to real estate property held for investment by those subsidiaries. This represents an increase of \$7 million from December 31, 2014, due to new borrowings in 2015 of \$92 million offset by prepayments and foreign exchange fluctuations totaling \$85 million.

Junior Subordinated Notes. On May 18, 2015, Prudential Financial issued \$1.0 billion of 5.375% fixed-to-floating rate junior subordinated notes in a public offering. The notes are considered hybrid capital securities that receive enhanced equity treatment from certain of the rating agencies. The notes have a maturity date of May 15, 2045. Interest is payable semi-annually at a fixed rate of 5.375% until May 15, 2025, from which date interest is payable quarterly at a floating rate of 3-month LIBOR plus 3.031%. Prudential Financial may redeem the notes in whole, but not in part, at any time prior to May 15, 2025, within 90 days after the occurrence of a "tax event", a "rating agency event" or a "regulatory capital event" at a redemption price equal to (i) in the case of a "tax event" or a "rating agency event", their

principal amount or, if greater, a make-whole redemption price plus accrued and unpaid interest or (ii) in the case of a “regulatory capital event”, their principal amount plus accrued and unpaid interest. On or after May 15, 2025, Prudential Financial may redeem the notes, in whole or in part, at their principal amount plus accrued and unpaid interest.

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

The Company has funded and non-funded non-contributory defined benefit pension plans, which cover substantially all of its employees. For some employees, benefits are based on final average earnings and length of service, while benefits for other employees are based on an account balance that takes into consideration age, service and earnings during their career.

The Company provides certain health care and life insurance benefits for its retired employees, their beneficiaries and covered dependents (“other postretirement benefits”). The health care plan is contributory; the life insurance plan is non-contributory.

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Substantially all of the Company's U.S. employees may become eligible to receive other postretirement benefits if they retire after age 55 with at least 10 years of service or under certain circumstances after age 50 with at least 20 years of continuous service.

Net periodic (benefit) cost included in "General and administrative expenses" includes the following components:

	Three Months Ended June 30,		Other Postretirement Benefits	
	Pension Benefits 2015	2014	2015	2014
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	\$61	\$59	\$5	\$4
Interest cost	117	121	22	24
Expected return on plan assets	(193)	(179)	(28)	(29)
Amortization of prior service cost	(2)	(2)	(2)	(3)
Amortization of actuarial (gain) loss, net	42	22	9	7
Settlements	0	1	0	0
Special termination benefits	2	0	0	0
Net periodic (benefit) cost	\$27	\$22	\$6	\$3

	Six Months Ended June 30,		Other Postretirement Benefits	
	Pension Benefits 2015	2014	2015	2014
	(in millions)			
Service cost	\$122	\$118	\$10	\$8
Interest cost	234	241	43	48
Expected return on plan assets	(387)	(356)	(57)	(58)
Amortization of prior service cost	(4)	(5)	(3)	(6)
Amortization of actuarial (gain) loss, net	84	43	19	14
Settlements	1	2	0	0
Special termination benefits	4	0	0	0
Net periodic (benefit) cost	\$54	\$43	\$12	\$6

11. SEGMENT INFORMATION

Segments

As discussed in Note 1, from December 18, 2001, the date of demutualization, through December 31, 2014, the Company organized its principal operations into the Financial Services Businesses and the Closed Block Business. As a result of the Class B Repurchase on January 2, 2015, the Company no longer organizes its principal operations into the Financial Services Businesses and the Closed Block Business. The Company operates through four divisions, which together encompass seven reportable segments, and its Corporate and Other operations.

Adjusted Operating Income

The Company analyzes the operating performance of each segment using “adjusted operating income.” Adjusted operating income does not equate to “Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures” or “Net income (loss)” as determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company’s chief operating decision maker to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is the measure of segment performance presented below. Adjusted operating income is calculated by adjusting each segment’s “Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures” for the following items, which are described in greater detail below:

• realized investment gains (losses), net, and related charges and adjustments;

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

net investment gains (losses) on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes; the contribution to income (loss) of divested businesses that have been or will be sold or exited, including businesses that have been placed in wind down status, but that did not qualify for “discontinued operations” accounting treatment under U.S. GAAP; and equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

These items are important to an understanding of overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and the Company’s definition of adjusted operating income may differ from that used by other companies. However, the Company believes that the presentation of adjusted operating income as measured for management purposes enhances the understanding of results of operations by highlighting the results from ongoing operations and the underlying profitability factors of its businesses.

Realized investment gains (losses), net, and related charges and adjustments

Realized investment gains (losses), net

Adjusted operating income excludes “Realized investment gains (losses), net,” except for certain items described below. Significant activity excluded from adjusted operating income includes impairments and credit-related gains and losses from sales of securities, the timing of which depends largely on market credit cycles and can vary considerably across periods, and interest rate-related gains and losses from sales of securities, which are largely subject to the Company’s discretion and influenced by market opportunities, as well as the Company’s tax and capital profile. Additionally, certain gains and losses pertaining to derivative contracts that do not qualify for hedge accounting treatment are also excluded from adjusted operating income. Trends in the underlying profitability of the Company’s businesses can be more clearly identified without the fluctuating effects of these transactions.

The following table sets forth the significant components of “Realized investment gains (losses), net” that are included in adjusted operating income and, as a result, are reflected as adjustments to “Realized investment gains (losses), net” for purposes of calculating adjusted operating income:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in millions)			
Net gains (losses) from(1):				
Terminated hedges of foreign currency earnings	\$79	\$66	\$160	\$144
Current period yield adjustments	\$125	\$122	\$248	\$246
Principal source of earnings	\$24	\$13	\$48	\$27

In addition to the items in the table above, “Realized investment gains (losses), net, and related charges and (1) adjustments” also includes an adjustment to reflect “Realized investment gains (losses), net” related to divested businesses as results of “Divested businesses,” discussed below.

Terminated Hedges of Foreign Currency Earnings. The amounts shown in the table above primarily reflect the impact of an intercompany arrangement between Corporate and Other operations and the International Insurance segment, pursuant to which the non-U.S. dollar-denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segment’s U.S.

dollar equivalent earnings. Pursuant to this program, the Company's Corporate and Other operations may execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar-denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP, so the resulting profits or losses are recorded in "Realized investment gains (losses), net." When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income.

Current Period Yield Adjustments. The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For derivative contracts that do not qualify for hedge accounting treatment, the periodic swap settlements, as well as certain other derivative related yield adjustments are recorded in "Realized investment gains (losses), net," and are included in

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Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Included in the amounts shown in the table above are gains on certain derivative contracts that were terminated or offset before their final maturity of \$13 million and \$34 million for the three months ended June 30, 2015 and 2014, respectively, and \$26 million and \$52 million for the six months ended June 30, 2015 and 2014, respectively. Additionally, as of June 30, 2015, there was a \$224 million deferred net gain related to certain derivative contracts that were terminated or offset before their final maturity, primarily in the International Insurance segment. Also included in the amounts shown in the table above are fees related to synthetic GICs of \$39 million and \$43 million for the three months ended June 30, 2015 and 2014, respectively, and \$79 million and \$85 million for the six months ended June 30, 2015 and 2014, respectively. Synthetic GICs are accounted for as derivatives under U.S. GAAP and, therefore, these fees are recorded in “Realized investment gains (losses), net.” See Note 14 for additional information on synthetic GICs.

Principal Source of Earnings. The Company conducts certain activities for which realized investment gains and losses are a principal source of earnings for its businesses and therefore included in adjusted operating income, particularly within the Company’s Asset Management segment. For example, Asset Management’s strategic investing business makes investments for sale or syndication to other investors or for placement or co-investment in the Company’s managed funds and structured products. The realized investment gains and losses associated with the sale of these strategic investments, as well as the majority of derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the realized investment gains and losses associated with loans originated by the Company’s commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and included in adjusted operating income.

Other items reflected as adjustments to Realized investment gains (losses), net

The following table sets forth certain other items excluded from adjusted operating income and reflected as an adjustment to “Realized investment gains (losses), net” for purposes of calculating adjusted operating income:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in millions)			
Net gains (losses) from:				
Other trading account assets	\$26	\$11	\$(32	) \$33
Foreign currency exchange movements	\$133	\$(231	) \$158	\$0
Other activities	\$(2	) \$9	\$1	\$13

Other Trading Account Assets. The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in “Other trading account assets, at fair value” on the Company’s Unaudited Interim Consolidated Statements of Financial Position. Realized and unrealized gains and losses for these investments are recorded in “Other income.” Consistent with the exclusion of realized investment gains and losses with respect to other investments managed on a consistent basis, the net gains or losses on these investments are excluded from adjusted operating income.

Foreign Currency Exchange Movements. The Company has certain assets and liabilities for which, under U.S. GAAP, the changes in value, including those associated with changes in foreign currency exchange rates during the period,

are recorded in "Other income." To the extent the foreign currency exposure on these assets and liabilities is economically hedged or considered part of the Company's capital funding strategies for its international subsidiaries, the change in value included in "Other income" is excluded from adjusted operating income. The amounts in the table above for the three and six months ended June 30, 2014, were largely driven by non-yen denominated insurance liabilities in the Company's Japanese insurance operations. The insurance liabilities are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While these non-yen denominated assets and liabilities are economically hedged, unrealized gains and losses on available-for-sale investments, including those arising from foreign currency exchange rate movements, are recorded in "Accumulated other comprehensive income (loss)" under U.S. GAAP, while the non-yen denominated liabilities are re-measured for foreign currency exchange rate movements, with the related change in value recorded in earnings within "Other income." Due to this non-economic volatility that has been reflected in U.S. GAAP earnings, the change in value recorded within "Other income" is excluded from adjusted operating income.

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As a result of continued growth in these portfolios, the Company implemented a new reporting structure in Gibraltar Life that disaggregated the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. The new structure was effective for financial reporting beginning in the first quarter of 2015 and minimizes future volatility in reported U.S. GAAP earnings arising from foreign currency remeasurement.

Other Activities. The Company excludes certain other items from adjusted operating income that are consistent with similar adjustments described above. The significant items within other activities shown in the table above included the following:

In connection with disputes arising out of the Chapter 11 bankruptcy petition filed by Lehman Brothers Holdings Inc., the Company previously recorded losses related to a portion of its counterparty exposure on derivative transactions it had previously held with Lehman Brothers and its affiliates. The Company recorded no estimated recoveries related to this matter in 2015 and recorded estimated recoveries of \$9 million and \$16 million in the three and six months ended June 30, 2014, respectively. These recoveries are recorded within “Other income” within the Company’s Corporate and Other operations. Consistent with the exclusion of credit-related losses recorded in “Realized investment gains (losses), net,” the impact of this estimated recovery is excluded from adjusted operating income.

The Company records valuation adjustments for non-performance risk (“NPR”) that relates to the uncollateralized portion of certain derivative contracts between a subsidiary of the Company and third parties and liquidity risk associated with certain derivatives. These adjustments are recorded within “Other income.” Consistent with the exclusion of the mark-to-market on derivatives recorded in “Realized investment gains (losses), net,” the impact of these risks is excluded from adjusted operating income. The net impact of these risks was to exclude from adjusted operating income net losses of \$2 million and net losses of less than \$1 million for the three months ended June 30, 2015 and 2014, respectively, and net gains of \$1 million and net losses of \$2 million for the six months ended June 30, 2015 and 2014, respectively.

Related charges

Charges that relate to realized investment gains and losses are also excluded from adjusted operating income, and include the following:

The portion of the amortization of DAC, VOBA, unearned revenue reserves and deferred sales inducements for certain products that is related to net realized investment gains and losses.

Policyholder dividends and interest credited to policyholders’ account balances that relate to certain life policies that pass back certain realized investment gains and losses to the policyholder, and reserves for future policy benefits for certain policies that are affected by net realized investment gains and losses.

Market value adjustments paid or received upon a contractholder’s surrender of certain of the Company’s annuity products as these amounts mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets.

Investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes

Certain products included in the Retirement and International Insurance segments are experience-rated in that investment results associated with these products are expected to ultimately accrue to contractholders. The majority of investments supporting these experience-rated products are classified as trading and are carried at fair value, with realized and unrealized gains and losses reported in “Other income.” To a lesser extent, these experience-rated products

are also supported by derivatives and commercial mortgage and other loans. The derivatives are carried at fair value, with realized and unrealized gains and losses reported in "Realized investment gains (losses), net." The commercial mortgage and other loans are carried at unpaid principal, net of unamortized discounts and an allowance for losses, with gains and losses on sales and changes in the valuation allowance for commercial mortgage and other loans reported in "Realized investment gains (losses), net."

Adjusted operating income excludes net investment gains and losses on trading account assets supporting insurance liabilities, which is consistent with the exclusion of realized investment gains and losses with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains and losses on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in "Interest credited to policyholders' account balances." These adjustments are in addition to the exclusion from adjusted operating income of net investment gains and losses on the related derivatives and commercial mortgage and other loans through "Realized investment gains (losses), net, and related charges and

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adjustments,” as discussed above. The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread the Company earns on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that are expected to ultimately accrue to the contractholders.

Divested businesses

The contribution to income (loss) of divested businesses that have been or will be sold or exited, including businesses that have been placed in wind down, but that did not qualify for “discontinued operations” accounting treatment under U.S. GAAP, are excluded from adjusted operating income as the results of divested businesses are not considered relevant to understanding the Company’s ongoing operating results.

As discussed in Note 1, the Class B Repurchase on January 2, 2015 resulted in the elimination of the separate reporting of the Company’s former Financial Services Businesses and Closed Block Business. As a result of the Class B Repurchase, for both the three and six months ended June 30, 2015, the Closed Block division, which is comprised of the Closed Block segment, has been accounted for as a divested business because it consists primarily of certain participating insurance and annuity products that the Company ceased selling at demutualization in 2001 (See Note 6). For reporting periods through December 31, 2014, the Closed Block segment was reported as the Closed Block Business and was analyzed using U.S. GAAP rather than adjusted operating income. Both the current reporting of the Closed Block division and the historic reporting of the Closed Block Business exclude its results from adjusted operating income.

Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests

Equity in earnings of operating joint ventures, on a pre-tax basis, are included in adjusted operating income as these results are a principal source of earnings. These earnings are reflected on a U.S. GAAP basis on an after-tax basis as a separate line on the Company’s Unaudited Interim Consolidated Statements of Operations.

Earnings attributable to noncontrolling interests are excluded from adjusted operating income. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors, and are reflected on a U.S. GAAP basis as a separate line on the Company’s Unaudited Interim Consolidated Statements of Operations.

The table below reconciles adjusted operating income before income taxes to income from continuing operations before income taxes and equity in earnings of operating joint ventures:

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in millions)			
Adjusted Operating Income before income taxes by Segment:				
Individual Annuities	\$548	\$390	\$1,077	\$778
Retirement	237	286	521	650
Asset Management	196	200	401	393
Total U.S. Retirement Solutions and Investment Management division	981	876	1,999	1,821
Individual Life	237	158	353	283
Group Insurance	75	46	105	52
Total U.S. Individual Life and Group Insurance division	312	204	458	335
International Insurance	842	884	1,676	1,721
Total International Insurance division	842	884	1,676	1,721
Corporate Operations	(294)	(341)	(547)	(683)
Total Corporate and Other	(294)	(341)	(547)	(683)
Total Adjusted Operating Income before income taxes	1,841	1,623	3,586	3,194
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(60)	(202)	1,602	(153)
Charges related to realized investment gains (losses), net	346	(71)	(265)	(128)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(220)	225	(137)	326
Change in experience-rated contractholder liabilities due to asset value changes	234	(189)	37	(232)
Divested businesses:				
Closed Block division(1)	52	0	30	0
Other divested businesses	(109)	47	(34)	120
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	45	18	58	29
Subtotal(2)	2,129	1,451	4,877	3,156
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business(3)	0	56	0	69
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	\$2,129	\$1,507	\$4,877	\$3,225

(1) As a result of the Class B Repurchase, for the three and six months ended June 30, 2015, the Closed Block, along with certain related assets and liabilities, comprises the Closed Block division, which is accounted for as a divested business that is reported separately from the divested businesses that are included in Corporate and Other operations.

(2) Amounts for the three and six months ended June 30, 2014 represent “Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures” of the Company’s former Financial Services Businesses, reflecting the existence of two classes of common stock and the separate reporting of the Financial Services Businesses and the Closed Block Business for that period.

(3) Reflects the existence of two classes of common stock and the separate reporting of the Company’s former Financial Services Businesses and the Closed Block Business for the three and six months ended June 30, 2014.

The Individual Annuities segment results reflect DAC as if the individual annuity business is a stand-alone operation. The elimination of intersegment costs capitalized in accordance with this policy is included in consolidating adjustments within Corporate and Other operations.

The table below presents revenues and total assets for the Company's reportable segments for the periods, or as of the dates, indicated:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Revenue				Total Assets	
	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015		June 30, 2015	December 31, 2014
	2014	2014	2014	2014		
	(in millions)					
Individual Annuities	\$1,200	\$1,171	\$2,387	\$2,328	\$171,938	\$174,951
Retirement	3,180	1,469	5,658	3,000	176,582	179,674
Asset Management	776	713	1,509	1,380	52,121	50,214
Total U.S. Retirement Solutions and Investment Management division	5,156	3,353	9,554	6,708	400,641	404,839
Individual Life	1,160	1,318	2,511	2,614	71,589	70,152
Group Insurance	1,291	1,342	2,568	2,704	40,951	41,125
Total U.S. Individual Life and Group Insurance division	2,451	2,660	5,079	5,318	112,540	111,277
International Insurance	5,037	5,252	9,943	10,327	171,015	171,635
Total International Insurance division	5,037	5,252	9,943	10,327	171,015	171,635
Corporate Operations	(144)	(152)	(269)	(304)	14,642	8,013
Total Corporate and Other	(144)	(152)	(269)	(304)	14,642	8,013
Total	12,500	11,113	24,307	22,049	698,838	695,764
Reconciling items:						
Realized investment gains (losses), net, and related adjustments	(60)	(202)	1,602	(153)		
Charges related to realized investment gains (losses), net	(133)	(3)	(79)	(11)		
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(220)	225	(137)	326		
Divested businesses:						
Closed Block division(1)	1,525	0	3,244	0	63,893	0
Other divested businesses	109	182	333	392		
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(9)	(4)	(6)	(4)		
Subtotal(2)	13,712	11,311	29,264	22,599	762,731	695,764
Closed Block Business(3)	0	1,835	0	3,401	0	70,891
Total per Unaudited Interim Consolidated Financial Statements	\$13,712	\$13,146	\$29,264	\$26,000	\$762,731	\$766,655

(1) As a result of the Class B Repurchase, for the three and six months ended June 30, 2015, the Closed Block, along with certain related assets and liabilities, comprises the Closed Block division, which is accounted for as a divested business that is reported separately from the divested businesses that are included in Corporate and Other operations.

(2) Amounts for the three and six months ended June 30, 2014 represent the Company's former Financial Services Businesses, reflecting the existence of two classes of common stock and the separate reporting of the Financial Services Businesses and the Closed Block Business for that period.

(3) Reflects the existence of two classes of common stock and the separate reporting of the Company's former Financial Services Businesses and the Closed Block Business for the three and six months ended June 30, 2014.

The Asset Management segment revenues include intersegment revenues primarily consisting of asset-based management and administration fees as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(in millions)			
Asset Management segment intersegment revenues	\$ 169	\$ 154	\$ 347	\$ 310

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other.

12. INCOME TAXES

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.

Listed below are the tax years that remain subject to examination by major tax jurisdiction, at June 30, 2015:

Major Tax Jurisdiction	Open Tax Years
United States	2007 – 2014
Japan	Fiscal years ended March 31, 2010 – 2015
Korea	Fiscal years ended March 31, 2010 – 2013 and the period ended December 31, 2013 and calendar year 2014

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 2014 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, the issues related to the calculation of the DRD. For the last several years, the revenue proposals included in the Obama Administration's budgets 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 consolidated net income.

For tax years 2007 through 2015, 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 return. If disagreements arise, accelerated resolutions programs are available to try to resolve the disagreements in a timely manner before the tax return is filed.

Total income tax expense includes additional income tax expense related to the realization of local deferred tax assets recorded in the Unaudited Interim Consolidated Statements of Financial Position as of the acquisition date for

Prudential Gibraltar Financial Life Insurance Company, Ltd. (“Prudential Gibraltar”) and AIG Star Life Insurance Co., Ltd, AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. (collectively, the “Star and Edison Businesses”). As of December 31, 2014 , the entire amount of additional U.S. GAAP tax expense of \$734 million related to the utilization of opening balance sheet local deferred tax assets has been recognized in the Unaudited Interim Consolidated Statements of Operations.

13. 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:

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 and short term investments, equity securities and derivative contracts 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 actively trade and are priced based on a net asset value (“NAV”)), certain commercial mortgage loans, short-term investments and certain cash equivalents (primarily commercial paper), and certain over-the-counter (“OTC”) derivatives.

Level 3—Fair value is based on at least one or more significant unobservable inputs 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 commercial mortgage loans, certain consolidated real estate funds for which the Company is the general partner and embedded derivatives resulting from certain products with guaranteed benefits.

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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of June 30, 2015			Netting(1)	Total
	Level 1	Level 2	Level 3		
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$0	\$17,811	\$0	\$	\$17,811
Obligations of U.S. states and their political subdivisions	0	7,866	20		7,886
Foreign government bonds	0	78,710	151		78,861
Corporate securities	0	155,471	1,103		156,574
Asset-backed securities	0	7,418	3,817		11,235
Commercial mortgage-backed securities	0	12,111	41		12,152
Residential mortgage-backed securities	0	5,329	215		5,544
Subtotal	0	284,716	5,347		290,063
Trading account assets(2):					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	170	0		170
Obligations of U.S. states and their political subdivisions	0	186	0		186
Foreign government bonds	0	683	25		708
Corporate securities	0	21,668	148		21,816
Asset-backed securities	0	873	607		1,480
Commercial mortgage-backed securities	0	2,087	2		2,089
Residential mortgage-backed securities	0	1,593	5		1,598
Equity securities	1,563	241	604		2,408
All other(3)	417	12,025	12	(9,893)	2,561
Subtotal	1,980	39,526	1,403	(9,893)	33,016
Equity securities, available-for-sale	6,592	3,050	259		9,901
Commercial mortgage and other loans	0	391	0		391
Other long-term investments	8	230	1,714	(8)	1,944
Short-term investments	4,400	724	0		5,124
Cash equivalents	3,809	8,638	0		12,447
Other assets	3	110	2		115
Subtotal excluding separate account assets	16,792	337,385	8,725	(9,901)	353,001
Separate account assets(4)	48,175	222,311	25,855		296,341
Total assets	\$64,967	\$559,696	\$34,580	\$(9,901)	\$649,342
Future policy benefits(5)	\$0	\$0	\$5,478	\$	\$5,478
Other liabilities	(2)	5,883	2	(5,730)	153
Notes Issued by consolidated VIEs	0	0	7,434		7,434
Total liabilities	\$(2)	\$5,883	\$12,914	\$(5,730)	\$13,065

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of December 31, 2014			Netting(1)	Total
	Level 1 (in millions)	Level 2	Level 3		
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$0	\$20,123	\$0	\$	\$20,123
Obligations of U.S. states and their political subdivisions	0	6,525	6		6,531
Foreign government bonds	0	80,939	2		80,941
Corporate securities	0	159,073	1,303		160,376
Asset-backed securities	0	7,126	4,059		11,185
Commercial mortgage-backed securities	0	13,834	43		13,877
Residential mortgage-backed securities	0	5,804	253		6,057
Subtotal	0	293,424	5,666		299,090
Trading account assets(2):					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	399	0		399
Obligations of U.S. states and their political subdivisions	0	199	0		199
Foreign government bonds	0	696	21		717
Corporate securities	0	20,146	124		20,270
Asset-backed securities	0	850	393		1,243
Commercial mortgage-backed securities	0	2,556	5		2,561
Residential mortgage-backed securities	0	1,767	7		1,774
Equity securities	1,396	232	663		2,291
All other(3)	194	13,803	7	(12,321)	1,683
Subtotal	1,590	40,648	1,220	(12,321)	31,137
Equity securities, available-for-sale	6,688	2,898	275		9,861
Commercial mortgage and other loans	0	380	0		380
Other long-term investments	12	224	1,547	(11)	1,772
Short-term investments	5,263	2,472	0		7,735
Cash equivalents	2,657	9,188	0		11,845
Other assets	4	109	2		115
Subtotal excluding separate account assets	16,214	349,343	8,710	(12,332)	361,935
Separate account assets(4)	48,063	223,710	24,662		296,435
Total assets	\$64,277	\$573,053	\$33,372	\$(12,332)	\$658,370
Future policy benefits(5)	\$0	\$0	\$8,182	\$	\$8,182
Other liabilities	1	6,883	5	(6,661)	228
Notes Issued by consolidated VIEs	0	0	6,033		6,033
Total liabilities	\$1	\$6,883	\$14,220	\$(6,661)	\$14,443

“Netting” amounts represent cash collateral of \$4,171 million and \$5,671 million as of June 30, 2015 and

(1) December 31, 2014, respectively, and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting arrangements.

(2) Includes “Trading account assets supporting insurance liabilities” and “Other trading account assets.”

(3) Level 1 represents cash equivalents and short term investments. All other amounts primarily represent derivative assets.

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 assets classified as Level 3 consist (4) primarily of real estate and real estate investment funds. 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.

As of June 30, 2015, the net embedded derivative liability position of \$5.5 billion includes \$0.8 billion of embedded derivatives in an asset position and \$6.3 billion of embedded derivatives in a liability position. As of (5) December 31, 2014, the net embedded derivative liability position of \$8.2 billion includes \$0.6 billion of embedded derivatives in an asset position and \$8.8 billion of embedded derivatives in a liability position.

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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 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 the 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, 2015 and December 31, 2014, 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 fixed maturity securities, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under “Fixed Maturity Securities” and below under “Equity Securities” and “Derivative Instruments.”

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.

Commercial Mortgage and Other Loans—The fair value of commercial mortgage loans held for investment and accounted for using the fair value option are determined based on the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for similar quality loans. The quality ratings for these loans, a primary determinant of the appropriate credit spread and a significant component of the pricing input, are based on internally-developed estimates. As a result, these loans are included in Level 3 in the fair value hierarchy.

The fair value of other loans held and accounted for using the fair value option is determined utilizing pricing indicators from the whole loan market, where investors are committed to purchase these loans at a predetermined price, which is considered

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

the principal exit market for these loans. The Company has evaluated the valuation inputs used for these assets, including the existence of predetermined exit prices, the terms of the loans, prevailing interest rates and credit risk, and deemed that the primary pricing inputs are Level 2 inputs in the fair value hierarchy.

Other Long-Term Investments—Other long-term investments include limited partnerships which are consolidated because the Company is either deemed to exercise control or considered the primary beneficiary of a variable interest entity. These entities are considered investment companies and follow specialized industry accounting whereby their assets are carried at fair value. The investments held by these entities include various feeder fund investments in underlying master funds (whose underlying holdings generally include public fixed maturities, equity securities and mutual funds), as well as wholly-owned real estate held within other investment funds. The fair value is determined by reference to the underlying direct investments, with publicly traded equity securities based on quoted prices in active markets reflected in Level 1, and public fixed maturities and mutual funds priced via quotes from pricing services or observable data reflected in Level 2. The fair value of investments in funds that are subject to significant liquidity restrictions are reflected in Level 3.

The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, supplemented with replacement cost estimates and comparable recent sales data when available. These appraisals and the related assumptions are updated at least annually. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in the fair value hierarchy.

The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers and is measured at fair value using NAV as a practical expedient. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments have been included within Level 3 in the fair value hierarchy.

Derivative Instruments—Derivatives are recorded at fair value either as assets, within “Other trading account assets,” or “Other long-term investments,” or as liabilities, within “Other liabilities,” 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, commodity prices, credit spreads, market volatility, expected returns, 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.

The Company’s exchange-traded futures and options include Treasury futures, Eurodollar futures, commodity futures, Eurodollar options and commodity options. Exchange-traded futures and options are valued using quoted prices in active markets and are classified within Level 1 in the fair value hierarchy.

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 and cross currency swaps, currency forward contracts, commodity swaps, commodity forward contracts, single name credit default swaps, loan commitments held for sale and “to be announced” (“TBA”) forward contracts on highly rated mortgage-backed securities issued by U.S. government sponsored entities 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.

The vast majority of the Company's derivative agreements are with highly rated major international financial institutions. To reflect the market's perception of its own and the counterparty's NPR, the Company incorporates additional spreads over London Interbank Offered Rates ("LIBOR") into the discount rate used in determining the fair value of OTC derivative assets and liabilities that are not otherwise collateralized.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Derivatives classified as Level 3 include look-back equity options and other 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.

Cash Equivalents and Short-Term Investments—Cash equivalents and short-term investments include money market instruments, commercial paper 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, mutual funds and real estate investments for which values are determined consistent with similar instruments described above under "Fixed Maturity Securities," "Equity Securities" and "Other Long-Term Investments."

Notes issued by Consolidated VIEs—The fair values of these notes are based on indicative broker quotes and classified within Level 3. See Note 5 and "Fair Value Option" below for additional information.

Other Liabilities—Other liabilities include certain derivative instruments, the fair values of which are determined consistent with similar derivative instruments described above under "Derivative Instruments."

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 offered by the Company's Individual Annuities segment, 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 customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, 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 policyholders' 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 policyholders' 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—Overall, transfers between levels are made to reflect changes in observability of inputs and market activity. Transfers into or out of any level are assumed to occur at the beginning of the quarter in which the transfers occur. Periodically there are transfers between Level 1 and Level 2 for assets held in the Company's Separate Account. The fair value of foreign common stock held in the Company's Separate Account may reflect differences in market levels between the close of foreign trading markets and the close of U.S. trading markets for the respective day. Dependent on the existence of such a timing difference, the assets may move between Level 1 and Level 2. During the three months ended June 30, 2015, \$24 million were transferred from Level 1 to Level 2 and \$36 million were transferred from Level 2 to Level 1. During the six months ended June 30, 2015, \$74 million were transferred from Level 1 to Level 2 and \$53 million were transferred from Level 2 to Level 1. During the three months ended June 30, 2014, \$17 million were transferred from Level 1 to Level 2 and \$22 million were transferred from Level 2 to Level 1. During the six months ended June 30, 2014, \$150 million were transferred from Level 1 to Level 2 and \$55 million were transferred from Level 2 to Level 1.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Level 3 Assets and Liabilities by Price Source—The table below presents the balances of Level 3 assets and liabilities measured at fair value with their corresponding pricing sources.

	As of June 30, 2015		
	Internal(1)	External(2)	Total
	(in millions)		
Obligations of U.S. states and their political subdivisions	\$6	\$14	\$20
Foreign government bonds	0	176	176
Corporate securities	774	477	1,251
Asset-backed securities	147	4,277	4,424
Commercial mortgage-backed securities	8	35	43
Residential mortgage-backed securities	53	167	220
Equity securities	121	742	863
Other long-term investments	12	1,702	1,714
Other assets	14	0	14
Subtotal excluding separate account assets(3)	1,135	7,590	8,725
Separate account assets	24,407	1,448	25,855
Total assets	\$25,542	\$9,038	\$34,580
Future policy benefits	\$5,478	\$0	\$5,478
Other liabilities	0	2	2
Notes Issued by consolidated VIEs	0	7,434	7,434
Total liabilities	\$5,478	\$7,436	\$12,914
	As of December 31, 2014		
	Internal(1)	External(2)	Total
	(in millions)		
Obligations of U.S. states and their political subdivisions	\$6	\$0	\$6
Foreign government bonds	0	23	23
Corporate securities	752	675	1,427
Asset-backed securities	150	4,302	4,452
Commercial mortgage-backed securities	10	38	48
Residential mortgage-backed securities	57	203	260
Equity securities	140	798	938
Other long-term investments	1	1,546	1,547
Other assets	9	0	9
Subtotal excluding separate account assets(3)	1,125	7,585	8,710
Separate account assets	23,632	1,030	24,662
Total assets	\$24,757	\$8,615	\$33,372
Future policy benefits	\$8,182	\$0	\$8,182
Other liabilities	2	3	5
Notes Issued by consolidated VIEs	0	6,033	6,033
Total liabilities	\$8,184	\$6,036	\$14,220

Represents valuations reflecting both internally-derived and market inputs as well as third-party pricing (1) 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, trading account assets supporting insurance liabilities and other trading account assets.

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PRUDENTIAL FINANCIAL, INC.

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).

As of June 30, 2015							
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
(in millions)							
Assets:							
Corporate securities	\$774	Discounted cash flow	Discount rate	1.05%	- 25%	8.05%	Decrease
		Market comparables	EBITDA multiples(2)	5.0X	- 6.5X	6.2X	Increase
		Liquidation	Liquidation value	22.12%	- 64.83%	43.07%	Increase
Liabilities:							
Future policy benefits(3)	\$5,478	Discounted cash flow	Lapse rate(4)	0%	- 14%		Decrease
			NPR spread(5)	0%	- 1.68%		Decrease
			Utilization rate(6)	56%	- 96%		Increase
			Withdrawal rate(7)	74%	- 100%		Increase
			Mortality rate(8)	0%	- 14%		Decrease
			Equity volatility curve	17%	- 28%		Increase
As of December 31, 2014							
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
(in millions)							
Assets:							
Corporate securities	\$752	Discounted cash flow	Discount rate	0.84%	- 15%	7.73%	Decrease
		Market comparables	EBITDA multiples(2)	6.1X	- 7.0X	6.1X	Increase
		Liquidation	Liquidation value	22.12%	- 100%	82.92%	Increase
Liabilities:							
Future policy benefits(3)	\$8,182	Discounted cash flow	Lapse rate(4)	0%	- 14%		Decrease
			NPR spread(5)	0%	- 1.30%		Decrease
			Utilization rate(6)	63%	- 96%		Increase
			Withdrawal rate(7)	74%	- 100%		Increase
			Mortality rate(8)	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.

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

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.

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.

To reflect NPR, the Company incorporates an additional spread over LIBOR into the discount rate used in the valuation of individual living benefit 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, 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.

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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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 product type, contractholder age, tax status and withdrawal timing. The fair value of the liability will generally increase the closer the withdrawal rate is to 100%.

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.

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.

Separate Account Assets—In addition to the significant internally-priced Level 3 assets and liabilities presented and described above, the Company also has internally-priced separate account assets reported within Level 3. Changes in the fair value of separate account assets are borne by customers and thus are offset by changes in separate account liabilities on the Company's Unaudited Interim Consolidated Statements of Financial Position. As a result, changes in value associated with these investments do not impact the Company's Unaudited Interim Consolidated Statements of Operations. In addition, fees earned by the Company related to the management of most separate account assets classified as Level 3 do not change due to changes in the fair value of these investments. Quantitative information about significant internally-priced Level 3 separate account assets is as follows:

Real Estate and Other Invested Assets—Separate account assets include \$23,435 million and \$22,641 million of investments in real estate as of June 30, 2015 and December 31, 2014, respectively, that are classified as Level 3 and reported at fair value. In general, these fair value estimates are based on property appraisal reports prepared by independent real estate appraisers. Key inputs and assumptions to the appraisal process include rental income and expense amounts, related growth rates, discount rates and capitalization rates. In cases where real estate investments are made through indirect investments, fair value is generally determined by the Company's equity in net assets of the entities. The debt associated with real estate, other invested assets and the Company's equity position in entities are externally valued. Because of the subjective nature of inputs and the judgment involved in the appraisal process, real estate investments and their corresponding debt are typically included in the Level 3 classification. Key unobservable

inputs to real estate valuation include capitalization rates, which ranged from 4.50% to 10.00% (5.93% weighted average) as of June 30, 2015, and 4.50% to 9.75% (6.05% weighted average) as of December 31, 2014, and discount rates, which ranged from 6.00% to 15.00% (7.19% weighted average) as of June 30, 2015, and 6.00% to 15.00% (7.36% weighted average) as of December 31, 2014. Key unobservable inputs to real estate debt valuation include yield to maturity, which ranged from 0.76% to 6.04% (3.94% weighted average) as of June 30, 2015, and 0.77% to 6.76% (4.02% weighted average) as of December 31, 2014, and market spread over base rate, which ranged from 1.50% to 4.20% (2.34% weighted average) as of June 30, 2015, and 1.50% to 4.76% (2.67% weighted average) as of December 31, 2014.

Commercial Mortgage Loans—Separate account assets include \$936 million and \$943 million of commercial mortgage loans as of June 30, 2015 and December 31, 2014, respectively, that are classified as Level 3 and reported at fair value. Commercial mortgage loans are primarily valued internally using discounted cash flow techniques, as described further under “Fair Value of Financial Instruments.” The primary unobservable input used is the spread to discount cash flows, which ranged from 1.27% to 8.41% (1.55% weighted average) as of June 30, 2015, and 1.17% to 8.39% (1.44% weighted average) as of December 31, 2014. In isolation, an increase (decrease) in the value of this input would result in a lower (higher) fair value measurement.

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

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.

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, 2015					
	Fixed Maturities Available-For-Sale					
	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
	(in millions)					
Fair Value, beginning of period	\$6	\$ 136	\$ 1,250	\$ 4,362	\$ 75	\$ 242
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	(13)	0	0	0
Included in other comprehensive income (loss)	0	(3)	10	15	0	(1)
Net investment income	0	0	(9)	10	0	0
Purchases	15	20	208	615	2	0
Sales	(1)	0	(154)	(286)	0	(3)
Issuances	0	0	0	0	0	0
Settlements	0	0	(21)	(39)	(2)	(16)
Foreign currency translation	0	2	(9)	(11)	0	(7)
Transfers into Level 3(2)	0	(4)	0	293	0	0
Transfers out of Level 3(2)	0	0	(159)	(1,142)	(34)	0
Fair Value, end of period	\$20	\$ 151	\$ 1,103	\$ 3,817	\$ 41	\$ 215

Unrealized gains (losses) for assets still held(3):

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Included in earnings:

Realized investment gains (losses), net	\$0	\$0	\$(13) \$4	\$0	\$0
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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended June 30, 2015						
	Trading Account Assets						
	Foreign Government	Corporate	Asset- Backed	Commercial Mortgage- Backed	Residential Mortgage- Backed	Equity	All Other Activity
	(in millions)						
Fair Value, beginning of period	\$22	\$ 144	\$376	\$ 3	\$ 6	\$634	\$ 8
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	1	0
Other income	0	(2)	1	0	0	(6)	4
Net Investment Income	0	1	1	0	0	0	0
Purchases	4	51	243	(1)	0	1	0
Sales	0	(4)	(2)	0	0	(12)	0
Issuances	0	0	0	0	0	0	0
Settlements	(1)	(1)	0	0	0	(1)	0
Foreign currency translation	0	0	0	0	0	(13)	0
Transfers into Level 3(2)	0	0	27	0	0	0	0
Transfers out of Level 3(2)	0	(41)	(39)	0	(1)	0	0
Fair Value, end of period	\$25	\$ 148	\$607	\$ 2	\$ 5	\$604	\$ 12
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other income	\$0	\$(2)	\$1	\$0	\$0	\$(7)	\$4

	Three Months Ended June 30, 2015			
	Equity Securities Available- For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets
	(in millions)			
Fair Value, beginning of period	\$263	\$0	\$ 1,617	\$ 2
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	6	0	0	0
Other income	0	0	60	0
Included in other comprehensive income (loss)	(4)	0	0	0
Net investment income	0	0	0	0
Purchases	8	0	92	0
Sales	(9)	0	(1)	0
Issuances	0	0	0	0
Settlements	0	0	(33)	0
Foreign currency translation	(7)	0	(14)	0
Other(1)	0	0	(7)	0
Transfers into Level 3(2)	2	0	0	0

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Transfers out of Level 3(2)	0	0	0	0
Fair Value, end of period	\$259	\$0	\$ 1,714	\$2
Unrealized gains (losses) for assets still held(3):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$0	\$(1) \$0
Other income	\$0	\$0	\$ 58	\$0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended June 30, 2015			
	Separate Account Assets (4)	Future Policy Benefits	Other Liabilities	Notes Issued by consolidated VIEs
	(in millions)			
Fair Value, beginning of period	\$25,067	\$ (9,473)	\$ (2)	\$ (6,810)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	8	4,236	0	(68)
Other Income	0	0	0	(62)
Interest credited to policyholders' account balances	755	0	0	0
Net investment income	6	0	0	0
Purchases	1,052	0	0	0
Sales	(237)	0	0	0
Issuances	0	(241)	0	(494)
Settlements	(513)	0	0	0
Foreign currency translation	(1)	0	0	0
Transfers into Level 3(2)	1	0	0	0
Transfers out of Level 3(2)	(283)	0	0	0
Fair Value, end of period	\$25,855	\$ (5,478)	\$ (2)	\$ (7,434)
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$4,167	\$0	\$(68)
Other Income	\$0	\$0	\$0	\$(62)
Interest credited to policyholders' account	\$502	\$0	\$0	\$0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Six Months Ended June 30, 2015						
	Fixed Maturities Available-For-Sale						
	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed	
	(in millions)						
Fair Value, beginning of period	\$6	\$2	\$1,303	\$4,059	\$43	\$253	
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	(14	) 6	0	0
Included in other comprehensive income (loss)	0	(3) 2	17	0	(1)
Net investment income	0	0	(15	) 13	0	0
Purchases	15	20	427	940	34	0	
Sales	(1) 0	(347) (390) 0	(3)
Issuances	0	0	0	0	0	0	
Settlements	0	0	(56) (78) (4) (25)
Foreign currency translation	0	(2) (11) (14) 0	(9)
Other(1)	0	0	(3	) 3	0	0
Transfers into Level 3(2)	0	134	16	803	2	0	
Transfers out of Level 3(2)	0	0	(199	) (1,542	) (34	) 0
Fair Value, end of period	\$20	\$151	\$1,103	\$3,817	\$41	\$215	
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	\$0	\$0	\$(16	) \$4	\$0	\$0

	Six Months Ended June 30, 2015						
	Trading Account Assets						
	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed	Equity	All Other Activity
	(in millions)						
Fair Value, beginning of period	\$21	\$124	\$393	\$5	\$7	\$663	\$7
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	(2	) 0
Other income	0	(7	) 3	0	0	(9	) 5
Net investment income	0	1	1	0	0	0	0
Purchases	5	71	247	0	0	8	0
Sales	0	(4	) (2	) (2	) 0	(16	) 0
Issuances	0	0	0	0	0	0	0
Settlements	(1	) (3	) (1	) (1	) (1	) (16	) 0
Foreign currency translation	0	0	0	0	0	(17	) 0
Other(1)	0	0	0	0	0	(7	) 0
Transfers into Level 3(2)	0	7	73	0	0	0	0
Transfers out of Level 3(2)	0	(41	) (107	) 0	(1	) 0	0
Fair Value, end of period	\$25	\$148	\$607	\$2	\$5	\$604	\$12

Unrealized gains (losses) for assets still held(3):

Included in earnings:

Realized investment gains (losses), net	\$0	\$0	\$0	\$0	\$0	\$(2)	\$0
Other income	\$0	\$(7)	\$3	\$0	\$0	\$6	\$5

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Six Months Ended June 30, 2015			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets
	(in millions)			
Fair Value, beginning of period	\$275	\$0	\$1,547	\$2
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	10	0	(2	) 0
Other income	0	0	99	0
Included in other comprehensive income (loss)	(1	) 0	0	0
Net investment income	0	0	(1	) 0
Purchases	12	0	201	0
Sales	(31	) 0	(2	) 0
Issuances	0	0	0	0
Settlements	0	0	(50	) 0
Foreign currency translation	(8	) 0	(52	) 0
Other(1)	0	0	(25	) 0
Transfers into Level 3(2)	2	0	0	0
Transfers out of Level 3(2)	0	0	(1	) 0
Fair Value, end of period	\$259	\$0	\$1,714	\$2
Unrealized gains (losses) for assets still held(3):				
Included in earnings:				
Realized investment gains (losses), net	\$(1) \$0	\$(2) \$0
Other income	\$0	\$0	\$98	\$0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Six Months Ended June 30, 2015			Notes Issued
	Separate	Future	Other	by
	Account	Policy	Liabilities	consolidated
	Assets(4)	Benefits		VIEs
	(in millions)			
Fair Value, beginning of period	\$24,662	\$ (8,182)	\$ (5)	\$ (6,033)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	11	3,184	1	(53)
Other Income	0	0	0	92
Interest credited to policyholders' account balances	1,426	0	0	0
Net investment income	12	0	0	0
Purchases	1,965	0	0	0
Sales	(417)	0	0	0
Issuances	0	(480)	0	(1,440)
Settlements	(1,026)	0	2	0
Foreign currency translation	(2)	0	0	0
Other(1)	(472)	0	0	0
Transfers into Level 3(2)	1	0	0	0
Transfers out of Level 3(2)	(305)	0	0	0
Fair Value, end of period	\$25,855	\$ (5,478)	\$ (2)	\$ (7,434)
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$3,062	\$1	\$(53)
Other Income	\$0	\$0	\$0	\$(92)
Interest credited to policyholders' account	\$860	\$0	\$0	\$0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended June 30, 2014					
	Fixed Maturities Available-For-Sale(5)					
	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
	(in millions)					
Fair Value, beginning of period	\$0	\$2	\$1,332	\$3,734	\$549	\$329
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	15	7	1	0
Included in other comprehensive income (loss)	0	0	20	3	3	0
Net investment income	0	0	3	5	0	(1)
Purchases	0	0	203	674	0	0
Sales	0	0	(196)	(45)	(6)	0
Issuances	0	0	0	0	0	0
Settlements	0	0	(117)	(523)	(1)	(13)
Foreign currency translation	0	0	2	0	0	2
Other(1)	0	0	4	(1)	0	(1)
Transfers into Level 3(2)	0	0	54	303	0	0
Transfers out of Level 3(2)	0	0	(25)	(333)	(497)	0
Fair Value, end of period	\$0	\$2	\$1,295	\$3,824	\$49	\$316
Unrealized gains (losses) for assets still held(3):						
Included in earnings:						
Realized investment gains (losses), net	\$0	\$0	\$(12)	\$2	\$0	\$0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended June 30, 2014						
	Trading Account Assets(5)						
	Foreign Government	Corporate	Asset- Backed	Commercial Mortgage- Backed	Residential Mortgage- Backed	Equity	All Other Activity
	(in millions)						
Fair Value, beginning of period	\$0	\$121	\$390	\$52	\$9	\$771	\$7
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	3	0
Other income	0	2	2	0	1	12	(1)
Net investment income	0	0	1	0	0	0	0
Purchases	12	53	89	(1)	0	9	0
Sales	0	(46)	(9)	0	0	(26)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(1)	(10)	1	(1)	(8)	0
Foreign currency translation	0	0	(612)	612	0	3	0
Transfers into Level 3(2)	0	0	18	2	0	0	0
Transfers out of Level 3(2)	0	0	577	(664)	0	(1)	0
Fair Value, end of period	\$12	\$129	\$446	\$2	\$9	\$763	\$6
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	\$0	\$0	\$0	\$0	\$0	\$2	\$0
Other income	\$0	\$1	\$3	\$0	\$0	\$8	\$0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended June 30, 2014			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets
	(in millions)			
Fair Value, beginning of period	\$310	\$0	\$1,368	\$4
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	2	0	9	0
Other income	0	0	39	0
Included in other comprehensive income (loss)	(15	) 0	0	0
Net investment income	0	0	(3	) 0
Purchases	15	0	85	0
Sales	(12	) 0	0	0
Issuances	0	0	0	0
Settlements	0	0	(48	) 0
Foreign currency translation	0	0	2	0
Other(1)	0	0	(15	) 0
Transfers into Level 3(2)	1	0	5	0
Transfers out of Level 3(2)	(2	) 0	0	0
Fair Value, end of period	\$299	\$0	\$1,442	\$4
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	\$(2) \$0	\$1	\$0
Other income	\$0	\$0	\$43	\$0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended June 30, 2014			
	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes Issued by consolidated VIEs
	(in millions)			
Fair Value, beginning of period	\$22,997	\$ (2,443)	\$ (6)	\$ (4,062)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	3	(732)	1	3
Interest credited to policyholders' account balances	750	0	0	0
Net investment income	6	0	0	0
Purchases	524	0	0	0
Sales	(149)			