PRUDENTIAL FINANCIAL INC
Form 10-Q
August 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey	**22-3703799**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

(Address and Telephone Number of Registrant s Principal Executive Offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark 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 x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

As of July 31, 2014, 458 million shares of the registrant s Common Stock (par value $0.01) were outstanding. In addition, 2 million shares of the registrant s Class B Stock, for which there is no established public trading market, 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, should, will, shall or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management s current expectations and beliefs concerning future developments and their potential effects upon 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, with regard to variable annuity or other product guarantees; (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, longevity, morbidity, persistency, surrender experience, 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 retirement expense; (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; (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; and (27) risks due to the lack of legal separation between our Financial Services Businesses and our Closed Block Business. 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, 2013 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, 2014 and December 31, 2013 (in millions, except share amounts)

	June 30, 2014	December 31, 2013
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2014-$277,756; 2013-$268,727)(1)	$ 304,472	$ 286,866
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2014-$3,464; 2013-$3,553)(1)	3,171	3,312
Trading account assets supporting insurance liabilities, at fair value(1)	21,273	20,827
Other trading account assets, at fair value(1)	8,665	6,453
Equity securities, available-for-sale, at fair value (cost: 2014-$7,218; 2013-$7,003)	10,222	9,910
Commercial mortgage and other loans (includes $204 and $158 measured at fair value under the fair value option at June 30, 2014 and December 31, 2013, respectively)(1)	42,964	41,008
Policy loans	11,966	11,766
Other long-term investments (includes $944 and $873 measured at fair value under the fair value option at June 30, 2014 and December 31, 2013, respectively)(1)	10,923	10,328
Short-term investments	5,663	7,703
Total investments	419,319	398,173
Cash and cash equivalents(1)	12,160	11,439
Accrued investment income(1)	3,162	3,089
Deferred policy acquisition costs	16,669	16,512
Value of business acquired	3,499	3,675
Other assets(1)	13,927	13,833
Separate account assets	296,801	285,060
TOTAL ASSETS	$ 765,537	$ 731,781
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 215,219	$ 206,859
Policyholders account balances(1)	138,545	136,657
Policyholders dividends	7,186	5,515
Securities sold under agreements to repurchase	8,786	7,898
Cash collateral for loaned securities	4,889	5,040
Income taxes	8,504	5,422
Short-term debt	3,804	2,669
Long-term debt	23,488	23,553

Other liabilities(1)	11,935	13,925
Notes issued by consolidated variable interest entities (includes $4,539 and $3,254 measured at fair value under the fair value option at June 30, 2014 and December 31, 2013, respectively)(1)	4,573	3,302
Separate account liabilities	296,801	285,060
Total liabilities	723,730	695,900
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,337 and 660,111,319 shares issued at June 30, 2014 and December 31, 2013, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively)	0	0
Additional paid-in capital	24,478	24,475
Common Stock held in treasury, at cost (201,707,340 and 199,056,067 shares at June 30, 2014 and December 31, 2013, respectively)	(12,723)	(12,415)
Accumulated other comprehensive income (loss)	13,077	8,681
Retained earnings	16,357	14,531
Total Prudential Financial, Inc. equity	41,195	35,278
Noncontrolling interests	612	603
Total equity	41,807	35,881
TOTAL LIABILITIES AND EQUITY	$ 765,537	$ 731,781

(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, 2014 and 2013 (in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUES				
Premiums	$ 6,068	$ 6,922	$ 11,936	$ 14,006
Policy charges and fee income	1,520	1,375	3,021	2,731
Net investment income	3,754	3,711	7,592	7,349
Asset management and service fees	928	880	1,832	1,700
Other income	267	(1,823)	802	(3,827)
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(32)	(180)	(111)	(488)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	6	147	69	385
Other realized investment gains (losses), net	635	(991)	859	(1,644)
Total realized investment gains (losses), net	609	(1,024)	817	(1,747)
Total revenues	13,146	10,041	26,000	20,212
BENEFITS AND EXPENSES				
Policyholders benefits	6,466	7,024	12,852	14,243
Interest credited to policyholders account balances	1,178	394	2,193	1,444
Dividends to policyholders	711	445	1,311	1,005
Amortization of deferred policy acquisition costs	482	220	919	438
General and administrative expenses	2,802	2,727	5,500	5,410
Total benefits and expenses	11,639	10,810	22,775	22,540
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,507	(769)	3,225	(2,328)
Income tax expense (benefit)	404	(275)	877	(1,102)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,103	(494)	2,348	(1,226)
Equity in earnings of operating joint ventures, net of taxes	6	5	6	51
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,109	(489)	2,354	(1,175)
Income (loss) from discontinued operations, net of taxes	4	2	8	3
NET INCOME (LOSS)	1,113	(487)	2,362	(1,172)
Less: Income (loss) attributable to noncontrolling interests	23	27	34	62
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	$ 1,090	$ (514)	$ 2,328	$ (1,234)
EARNINGS PER SHARE (See Note 8)				
Financial Services Businesses				
Basic earnings per share-Common Stock:				

Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 2.25	$ (1.12)	$ 4.87	$ (2.70)
Income (loss) from discontinued operations, net of taxes	0.01	0.00	0.02	0.01
Net income (loss) attributable to Prudential Financial, Inc.	$ 2.26	$ (1.12)	$ 4.89	$ (2.69)
Diluted earnings per share-Common Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 2.21	$ (1.12)	$ 4.79	$ (2.70)
Income (loss) from discontinued operations, net of taxes	0.01	0.00	0.02	0.01
Net income (loss) attributable to Prudential Financial, Inc.	$ 2.22	$ (1.12)	$ 4.81	$ (2.69)
Dividends declared per share of Common Stock	$ 0.53	$ 0.40	$ 1.06	$ 0.80
Closed Block Business				
Basic and Diluted earnings per share-Class B Stock:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 22.00	$ 1.00	$ 29.50	$ 6.50
Income (loss) from discontinued operations, net of taxes	0.00	0.00	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$ 22.00	$ 1.00	$ 29.50	$ 6.50
Dividends declared per share of Class B Stock	$ 2.41	$ 2.41	$ 4.82	$ 4.82

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, 2014 and 2013 (in millions)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
NET INCOME (LOSS)	$ 1,113	$ (487)	$ 2,362	$ (1,172)
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	167	(505)	247	(1,406)
Net unrealized investment gains (losses)	3,251	(5,430)	6,319	(1,152)
Defined benefit pension and postretirement unrecognized periodic benefit	20	43	43	93
Total	3,438	(5,892)	6,609	(2,465)
Less: Income tax expense (benefit) related to other comprehensive income (loss)	1,158	(1,933)	2,205	(710)
Other comprehensive income (loss), net of taxes	2,280	(3,959)	4,404	(1,755)
Comprehensive income (loss)	3,393	(4,446)	6,766	(2,927)
Less: Comprehensive income (loss) attributable to noncontrolling interests	24	37	42	72
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$ 3,369	$ (4,483)	$ 6,724	$ (2,999)

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity(1)

Six Months Ended June 30, 2014 and 2013 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common 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)	$ 8,681	$ 35,278	$ 603	$ 35,881
Common Stock acquired				(500)		(500)		(500)
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	0	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)	$ 13,077	$ 41,195	$ 612	$ 41,807

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2012	$ 6	$ 24,380	$ 16,066	$ (12,163)	$ 10,214	$ 38,503	$ 609	$ 39,112
Common Stock acquired				(250)		(250)		(250)
Contributions from noncontrolling interests							1	1
Distributions to noncontrolling interests							(72)	(72)
Consolidations/(deconsolidations) of noncontrolling interests							28	28
Stock-based compensation programs		3	(39)	237		201		201
Dividends declared on Common Stock			(376)			(376)		(376)
Dividends declared on Class B Stock			(10)			(10)		(10)
Comprehensive income:								
Net income (loss)			(1,234)			(1,234)	62	(1,172)
Other comprehensive income (loss), net of tax					(1,765)	(1,765)	10	(1,755)
Total comprehensive income (loss)						(2,999)	72	(2,927)
Balance, June 30, 2013	$ 6	$ 24,383	$ 14,407	$ (12,176)	$ 8,449	$ 35,069	$ 638	$ 35,707

(1) Class B Stock is not presented as the amounts are immaterial.

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, 2014 and 2013 (in millions)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 2,362	$ (1,172)
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(817)	1,747
Policy charges and fee income	(1,032)	(856)
Interest credited to policyholders account balances	2,193	1,444
Depreciation and amortization	179	161
Gains on trading account assets supporting insurance liabilities, net	(324)	378
Change in:		
Deferred policy acquisition costs	(429)	(1,131)
Future policy benefits and other insurance liabilities	3,251	4,774
Other trading account assets	(1)	(39)
Income taxes	898	(2,681)
Other, net	(725)	(239)
Cash flows from operating activities	5,555	2,386
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	26,535	26,806
Fixed maturities, held-to-maturity	232	275
Trading account assets supporting insurance liabilities and other trading account assets	6,098	12,639
Equity securities, available-for-sale	2,483	2,082
Commercial mortgage and other loans	1,673	2,737
Policy loans	1,096	1,176
Other long-term investments	350	805
Short-term investments	35,249	21,896
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(32,670)	(30,252)
Fixed maturities, held-to-maturity	(23)	(37)
Trading account assets supporting insurance liabilities and other trading account assets	(7,563)	(14,019)
Equity securities, available-for-sale	(2,289)	(1,982)
Commercial mortgage and other loans	(3,527)	(3,753)
Policy loans	(969)	(905)
Other long-term investments	(1,148)	(1,522)
Short-term investments	(33,301)	(23,090)
Acquisition of business, net of cash acquired	(23)	(488)
Other, net	272	(221)
Cash flows used in investing activities	(7,525)	(7,853)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders account deposits	12,226	12,245
Policyholders account withdrawals	(11,617)	(12,957)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	736	2,914
Cash dividends paid on Common Stock	(495)	(397)
Cash dividends paid on Class B Stock	(10)	(10)
Net change in financing arrangements (maturities 90 days or less)	324	496
Common Stock acquired	(500)	(237)
Common Stock reissued for exercise of stock options	138	116
Proceeds from the issuance of debt (maturities longer than 90 days)	2,817	2,091

Repayments of debt (maturities longer than 90 days)	(971)	(2,848)
Excess tax benefits from share-based payment arrangements	16	13
Other, net	(47)	(161)
Cash flows from financing activities	2,617	1,265
Effect of foreign exchange rate changes on cash balances	74	(853)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	721	(5,055)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,439	18,100
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,160	$ 13,045
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	$ 94	$ 102
Acquisition of Gibraltar BSN Life Berhad (See Note 3):		
Assets acquired, excluding cash and cash equivalents acquired	$ 656	$ 0
Liabilities assumed	586	0
Noncontrolling interest assumed	47	0
Net cash paid on acquisition	$ 23	$ 0
Acquisition of The Hartford s individual life business (See Note 3):		
Assets acquired, excluding cash and cash equivalents acquired	$ 0	$ 11,056
Liabilities assumed	0	10,568
Net cash paid on acquisition	$ 0	$ 488

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) 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. The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses operate through three operating divisions: U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance. The Company s businesses that are not sufficiently material to warrant separate disclosure and divested businesses are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which includes the Closed Block (see Note 6), is managed separately from the Financial Services Businesses. The Closed Block Business was established on the date of demutualization and includes the Company s in force participating insurance and annuity products and assets that are used for the payment of benefits and policyholders dividends on these products, as well as other assets and equity that support these products and related liabilities. In connection with the demutualization, the Company ceased offering these participating products.

Basis of Presentation

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 Audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

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, 2014, 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, 2014, respectively.

Use of Estimates

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; value of business acquired 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, 2013.

Adoption of New Accounting Pronouncements

In December 2013, the Financial Accounting Standards Board (FASB) issued updated guidance establishing a single definition of a public entity for use in financial accounting and reporting guidance. This new guidance is effective for all current and future reporting periods and did not have a significant effect on the Company s consolidated financial position, results of operations or financial statement disclosures.

In July 2013, the FASB issued new guidance regarding derivatives. The guidance permits the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting in addition to the United States Treasury rate and London Inter-Bank Offered Rate (LIBOR). The guidance also removes the restriction on using different benchmark rates for similar hedges. The guidance is effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013, 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 July 2013, the FASB issued updated guidance regarding the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This new guidance became effective for interim or annual reporting periods that began after December 15, 2013, 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 June 2013, the FASB issued updated guidance clarifying the characteristics of an investment company and requiring new disclosures. Under the guidance, all entities regulated under the Investment Company Act of 1940 automatically qualify as investment companies, while all other entities need to consider both the fundamental and typical characteristics of an investment company in determining whether they qualify as investment companies. This new guidance became effective for interim or annual reporting periods that began after December 15, 2013, 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 March 2013, the FASB issued updated guidance regarding the recognition in net income of the cumulative translation adjustment upon the sale or loss of control of a business or group of assets residing in a foreign subsidiary, or a loss of control of a foreign investment. This guidance became effective for interim or annual reporting periods that began after December 15, 2013, and was applied prospectively. The amendments

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

require an entity that ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity to release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. 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 February 2013, the FASB issued updated guidance regarding the presentation of comprehensive income. Under the guidance, an entity is required to separately present information about significant items reclassified out of accumulated other comprehensive income by component as well as changes in accumulated other comprehensive income balances by component in either the financial statements or the notes to the financial statements. The guidance does not change the items that are reported in other comprehensive income, does not change when an item of other comprehensive income must be reclassified to net income, and does not amend any existing requirements for reporting net income or other comprehensive income. The guidance became effective for interim or annual reporting periods that began after December 15, 2012, and was applied prospectively. The disclosures required by this guidance are included in Note 7.

In December 2011 and January 2013, the FASB issued updated guidance regarding the disclosure of recognized derivative instruments (including bifurcated embedded derivatives), repurchase agreements and securities borrowing/lending transactions that are offset in the statement of financial position or are subject to an enforceable master netting arrangement or similar agreement (irrespective of whether they are offset in the statement of financial position). This new guidance requires an entity to disclose information on both a gross and net basis about instruments and transactions within the scope of this guidance. This new guidance became effective for interim or annual reporting periods that began on or after January 1, 2013, and was applied retrospectively for all comparative periods presented. The disclosures required by this guidance are included in Note 14.

Future Adoption of New Accounting Pronouncements

In January 2014, the 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 is effective for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014, and should be applied retrospectively to all periods presented. The Company is currently assessing the impact of the guidance on the Company s consolidated financial position, results of operations and financial statement disclosures.

In January 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 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2014. This guidance can be elected for prospective adoption or by using a modified retrospective transition method. This guidance is not expected to have a significant impact 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 is effective prospectively to new disposals and new

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

classifications of disposal groups as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Early adoption is permitted for new disposals or new classifications as held for sale that have not been reported in financial statements previously issued or available for issuance. This guidance is not expected to have a significant impact on the Company s consolidated financial position, results of operations or financial statement disclosures.

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, 2016, 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 will be permitted. This guidance 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.

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of UniAsia Life Assurance

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

The assets acquired and the liabilities assumed have been included in the Company s Unaudited Interim Consolidated Financial Statements as of the acquisition date. After adjustments, total assets acquired were $744 million, including $88 million of cash and cash equivalents and $19 million of goodwill, none of which is deductible for local tax purposes, and total liabilities assumed were $586 million.

Prudential Financial intends to make a Section 338(g) election under the Internal Revenue Code with respect to this acquisition, resulting in the acquired entity being treated for U.S. tax purposes as a newly-incorporated company. Under such election, the U.S. tax basis of the assets acquired and liabilities assumed of UniAsia Life Assurance Berhad was adjusted as of January 2, 2014, to reflect the consequences of the Section 338(g) election.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Acquisition of The Hartford s Individual Life Insurance Business

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

The assets acquired and liabilities assumed have been included in the Company s Unaudited Interim Consolidated Financial Statements as of the acquisition date. Total assets acquired were $11.2 billion, including $1.4 billion of value of business acquired and $0.1 billion of cash, and total liabilities assumed were $10.6 billion. There is no goodwill, including tax deductible goodwill, associated with the acquisition.

Sale of Wealth Management Solutions Business

In April 2013, the Company signed a definitive agreement to sell its wealth management solutions business to Envestnet Inc. The transaction, which does not have a material impact to the Company s financial results, closed on July 1, 2013. Due to the existence of an ongoing contractual relationship between the Company and these operations, this disposition did not qualify for discontinued operations treatment under U.S. GAAP.

Discontinued Operations

Income from discontinued operations, including charges upon disposition, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Real estate investments sold or held for sale(1)	$ 6	$ 2	$ 12	$ 2
Global commodities business	0	0	0	2
Income from discontinued operations before income taxes	6	2	12	4
Income tax expense	2	0	4	1
Income from discontinued operations, net of taxes	$ 4	$ 2	$ 8	$ 3

(1) Reflects the income from discontinued real estate investments.

Charges recorded in connection with the disposals of businesses include estimates that are subject to subsequent adjustment.

The Company s Unaudited Interim Consolidated Statements of Financial Position include total assets and total liabilities related to discontinued operations as follows:

	June 30, 2014	December 31, 2013
	(in millions)	
Total assets	$ 5	$ 15
Total liabilities	$ 7	$ 7

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary Impairments in AOCI(3)
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 14,348	$ 2,759	$ 8	$ 17,099	$ 0
Obligations of U.S. states and their political subdivisions	4,766	566	20	5,312	0
Foreign government bonds	79,407	8,869	138	88,138	1
Corporate securities	148,552	14,935	1,206	162,281	(6)
Asset-backed securities(1)	10,577	289	150	10,716	(626)
Commercial mortgage-backed securities	14,040	460	58	14,442	0
Residential mortgage-backed securities(2)	6,066	427	9	6,484	(6)
Total fixed maturities, available-for-sale	$ 277,756	$ 28,305	$ 1,589	$ 304,472	$ (637)
Equity securities, available-for-sale	$ 7,218	$ 3,030	$ 26	$ 10,222	

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value
Fixed maturities, held-to-maturity				
Foreign government bonds	$ 972	$ 149	$ 0	$ 1,121
Corporate securities(4)	879	71	17	933
Asset-backed securities(1)	641	45	0	686
Commercial mortgage-backed securities	114	11	0	125
Residential mortgage-backed securities(2)	565	34	0	599

Total fixed maturities, held-to-maturity(4)	$ 3,171	$ 310	$ 17	$ 3,464

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.
(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in Accumulated Other Comprehensive Income (AOCI), which were not included in earnings. Amount excludes $921 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 $3,588 million (fair value, $3,859 million) which have been offset with the associated payables under a netting agreement.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-than-temporary Impairments in AOCI(3)
			(in millions)		
Fixed maturities, available-for-sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 13,754	$ 1,742	$ 96	$ 15,400	$ 0
Obligations of U.S. states and their political subdivisions	3,598	274	137	3,735	0
Foreign government bonds	75,595	7,459	266	82,788	1
Corporate securities	145,091	12,095	3,408	153,778	(4)
Asset-backed securities(1)	10,691	214	316	10,589	(755)
Commercial mortgage-backed securities	13,633	403	163	13,873	0
Residential mortgage-backed securities(2)	6,365	379	41	6,703	(7)
Total fixed maturities, available-for-sale	$ 268,727	$ 22,566	$ 4,427	$ 286,866	$ (765)
Equity securities, available-for-sale	$ 7,003	$ 2,931	$ 24	$ 9,910	

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
Fixed maturities, held-to-maturity				
Foreign government bonds	$ 938	$ 117	$ 0	$ 1,055
Corporate securities(4)	904	50	24	930
Asset-backed securities(1)	693	46	0	739
Commercial mortgage-backed securities	166	18	0	184
Residential mortgage-backed securities(2)	611	34	0	645
Total fixed maturities, held-to-maturity(4)	$ 3,312	$ 265	$ 24	$ 3,553

(1) Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans, and other asset types.
(2) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in AOCI, which were not included in earnings. Amount excludes $875 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.
(4) Excludes notes with amortized cost of $2,400 million (fair value, $2,461 million) which have been offset with the associated payables under a netting agreement.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The amortized cost and fair value of fixed maturities by contractual maturities at June 30, 2014, are as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Due in one year or less	$ 12,289	$ 12,760	$ 0	$ 0
Due after one year through five years	50,192	55,136	21	22
Due after five years through ten years	57,901	63,722	323	335
Due after ten years(1)	126,691	141,212	1,507	1,697
Asset-backed securities	10,577	10,716	641	686
Commercial mortgage-backed securities	14,040	14,442	114	125
Residential mortgage-backed securities	6,066	6,484	565	599
Total	$ 277,756	$ 304,472	$ 3,171	$ 3,464

(1) Excludes notes with amortized cost of $3,588 million (fair value, $3,859 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
		(in millions)		
Fixed maturities, available-for-sale				
Proceeds from sales	$ 7,460	$ 8,139	$ 16,038	$ 14,634
Proceeds from maturities/repayments	5,847	6,705	10,706	12,444
Gross investment gains from sales, prepayments, and maturities	476	413	901	642
Gross investment losses from sales and maturities	(83)	(88)	(235)	(194)
Fixed maturities, held-to-maturity				
Gross investment gains from prepayments	$ 0	$ 0	$ 0	$ 0
Proceeds from maturities/repayments	138	148	232	273
Equity securities, available-for-sale				

Proceeds from sales	$ 1,316	$ 1,137	$ 2,481	$ 2,185
Gross investment gains from sales	198	124	331	231
Gross investment losses from sales	(22)	(29)	(60)	(52)
Fixed maturity and equity security impairments				
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	$ (26)	$ (33)	$ (42)	$ (103)
Writedowns for impairments on equity securities	(7)	(1)	(17)	(8)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, 2013, a portion of certain other-than-temporary impairment (OTTI) losses on fixed maturity securities are 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 tables set 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.

Credit losses recognized in earnings on fixed maturity securities held by the Company for which a portion of the OTTI loss was recognized in OCI

	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
	(in millions)	
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 impairment 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

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
	(in millions)	
Balance, beginning of period	$ 1,089	$ 1,166
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(53)	(150)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	0	0
Credit loss impairment recognized in the current period on securities not previously impaired	7	8
Additional credit loss impairments recognized in the current period on securities previously impaired	27	39

Increases due to the passage of time on previously recorded credit losses	14	26
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(4)	(9)
Balance, end of period	$ 1,080	$ 1,080

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(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:

	June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Short-term investments and cash equivalents	$ 726	$ 726	$ 697	$ 697
Fixed maturities:				
Corporate securities	12,097	12,829	12,109	12,616
Commercial mortgage-backed securities	2,450	2,498	2,417	2,441
Residential mortgage-backed securities(1)	1,772	1,795	1,857	1,830
Asset-backed securities(2)	1,159	1,181	1,096	1,107
Foreign government bonds	639	659	579	596
U.S. government authorities and agencies and obligations of U.S. states	302	353	303	341
Total fixed maturities	18,419	19,315	18,361	18,931
Equity securities	1,005	1,232	913	1,199
Total trading account assets supporting insurance liabilities	$ 20,150	$ 21,273	$ 19,971	$ 20,827

(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 $201 million and ($596) million during the three months ended June 30, 2014 and 2013, respectively, and $267 million and ($493) million during the six months ended June 30, 2014 and 2013, 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, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 85	$ 86	$ 105	$ 106
Fixed maturities	6,265	6,361	4,653	4,723
Equity securities	1,026	1,160	1,051	1,177
Other	8	13	3	7
Subtotal	$ 7,384	7,620	$ 5,812	6,013
Derivative instruments		1,045		440
Total other trading account assets		$ 8,665		$ 6,453

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 $9 million and $13 million during the three months ended June 30, 2014 and 2013, respectively, and $35 million and $87 million during the six months ended June 30, 2014 and 2013, respectively.

Concentrations of Financial Instruments

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

As of both June 30, 2014 and December 31, 2013, 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.

	June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	$ 61,968	$ 68,248	$ 59,775	$ 65,389
Fixed maturities, held-to-maturity	949	1,096	916	1,032
Trading account assets supporting insurance liabilities	490	498	451	458
Other trading account assets	39	39	38	39
Short-term investments	0	0	0	0
Cash equivalents	296	296	107	107
Total	$ 63,742	$ 70,177	$ 61,287	$ 67,025

	June 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	$ 7,257	$ 8,322	$ 6,672	$ 7,277
Fixed maturities, held-to-maturity	0	0	0	0
Trading account assets supporting insurance liabilities	61	62	61	61
Other trading account assets	0	0	0	0
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0

Total	$ 7,318	$ 8,384	$ 6,733	$ 7,338

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Commercial Mortgage and Other Loans

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

	June 30, 2014		December 31, 2013	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial and agricultural mortgage loans by property type:				
Office	$ 8,455	20.6%	$ 7,762	19.9%
Retail	8,458	20.6	8,698	22.3
Apartments/Multi-Family	8,883	21.6	7,492	19.2
Industrial	7,372	17.9	7,390	18.9
Hospitality	2,068	5.0	2,050	5.2
Other	3,691	9.0	3,464	8.9
Total commercial mortgage loans	38,927	94.7	36,856	94.4
Agricultural property loans	2,173	5.3	2,183	5.6
Total commercial and agricultural mortgage loans by property type	41,100	100.0%	39,039	100.0%
Valuation allowance	(192)		(195)	
Total net commercial and agricultural mortgage loans by property type	40,908		38,844	
Other loans				
Uncollateralized loans	1,232		1,306	
Residential property loans	512		544	
Other collateralized loans	328		335	
Total other loans	2,072		2,185	
Valuation allowance	(16)		(21)	
Total net other loans	2,056		2,164	
Total commercial mortgage and other loans(1)	$ 42,964		$ 41,008	

(1) Includes loans held at fair value.

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States, Canada, Europe, Mexico and Asia with the largest concentrations in California (26%), New York (10%), and Texas (9%) at June 30, 2014.

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

	June 30, 2014					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for losses, beginning of year	$ 188	$ 7	$ 6	$ 3	$ 12	$ 216
Addition to / (release of) allowance of losses	4	0	0	(1)	(2)	1
Charge-offs, net of recoveries	(7)	0	0	(2)	0	(9)
Change in foreign exchange	0	0	0	0	0	0
Total ending balance	$ 185	$ 7	$ 6	$ 0	$ 10	$ 208

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2013					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for losses, beginning of year	$ 209	$ 20	$ 11	$ 12	$ 17	$ 269
Addition to / (release of) allowance of losses	12	(7)	(3)	(9)	(2)	(9)
Charge-offs, net of recoveries	(33)	(6)	0	0	0	(39)
Change in foreign exchange	0	0	(2)	0	(3)	(5)
Total ending balance	$ 188	$ 7	$ 6	$ 3	$ 12	$ 216

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, 2014					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Ending balance: individually evaluated for impairment	$ 11	$ 0	$ 0	$ 0	$ 0	$ 11
Ending balance: collectively evaluated for impairment	174	7	6	0	10	197
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 185	$ 7	$ 6	$ 0	$ 10	$ 208
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 400	$ 4	$ 0	$ 4	$ 2	$ 410
Ending balance gross of reserves: collectively evaluated for impairment	38,527	2,169	512	324	1,230	42,762
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$ 38,927	$ 2,173	$ 512	$ 328	$ 1,232	$ 43,172

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2013					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for Credit Losses:						
Ending balance: individually evaluated for impairment	$ 16	$ 0	$ 0	$ 3	$ 0	$ 19
Ending balance: collectively evaluated for impairment	172	7	6	0	12	197
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 188	$ 7	$ 6	$ 3	$ 12	$ 216
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 429	$ 5	$ 0	$ 7	$ 2	$ 443
Ending balance gross of reserves: collectively evaluated for impairment	36,427	2,178	544	328	1,304	40,781
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$ 36,856	$ 2,183	$ 544	$ 335	$ 1,306	$ 41,224

(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)

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

	June 30, 2014				
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment Before Allowance(2)	Interest Income Recognized(3)
			(in millions)		
With no related allowance recorded:					
Commercial mortgage loans	$ 14	$ 14	$ 0	$ 24	$ 0
Agricultural property loans	1	1	0	3	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	2	0	0	0
Total with no related allowance	$ 15	$ 17	$ 0	$ 27	$ 0
With an allowance recorded:					
Commercial mortgage loans	$ 114	$ 115	$ 11	$ 73	$ 3
Agricultural property loans	2	2	0	1	0
Residential property loans	0	0	0	0	0
Other collateralized loans	3	3	0	4	0
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$ 119	$ 120	$ 11	$ 78	$ 3
Total:					
Commercial mortgage loans	$ 128	$ 129	$ 11	$ 97	$ 3
Agricultural property loans	3	3	0	4	0
Residential property loans	0	0	0	0	0
Other collateralized loans	3	3	0	4	0
Uncollateralized loans	0	2	0	0	0
Total	$ 134	$ 137	$ 11	$ 105	$ 3

(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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2013				
	Recorded Investment(1)	Unpaid Principal Balance	Related Allowance (in millions)	Average Recorded Investment Before Allowance(2)	Interest Income Recognized(3)
With no related allowance recorded:					
Commercial mortgage loans	$ 33	$ 33	$ 0	$ 30	$ 1
Agricultural property loans	5	5	0	2	0
Residential property loans	0	0	0	0	0
Other collateralized loans	0	0	0	0	0
Uncollateralized loans	0	2	0	0	0
Total with no related allowance	$ 38	$ 40	$ 0	$ 32	$ 1
With an allowance recorded:					
Commercial mortgage loans	$ 54	$ 55	$ 16	$ 121	$ 1
Agricultural property loans	0	0	0	10	0
Residential property loans	0	0	0	0	0
Other collateralized loans	5	5	3	8	3
Uncollateralized loans	0	0	0	0	0
Total with related allowance	$ 59	$ 60	$ 19	$ 139	$ 4
Total:					
Commercial mortgage loans	$ 87	$ 88	$ 16	$ 151	$ 2
Agricultural property loans	5	5	0	12	0
Residential property loans	0	0	0	0	0
Other collateralized loans	5	5	3	8	3
Uncollateralized loans	0	2	0	0	0
Total	$ 97	$ 100	$ 19	$ 171	$ 5

(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, 2014 and December 31, 2013 was $204 million and $158 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, 2014 and December 31, 2013, all of the Company s commercial and other loans held for sale were collateralized, with collateral primarily consisting of apartment complexes.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following tables set forth certain key credit quality indicators as of June 30, 2014, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

	Debt Service Coverage Ratio June 30, 2014			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	$ 20,299	$ 560	$ 354	$ 21,213
60%-69.99%	11,675	436	268	12,379
70%-79.99%	4,099	479	41	4,619
Greater than 80%	354	183	179	716
Total commercial mortgage loans	$ 36,427	$ 1,658	$ 842	$ 38,927

Agricultural property loans

	Debt Service Coverage Ratio June 30, 2014			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	$ 2,027	$ 134	$ 2	$ 2,163
60%-69.99%	10	0	0	10
70%-79.99%	0	0	0	0
Greater than 80%	0	0	0	0
Total agricultural property loans	$ 2,037	$ 134	$ 2	$ 2,173

Total commercial and agricultural mortgage loans

	Debt Service Coverage Ratio June 30, 2014			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total

		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 22,326	$ 694	$ 356	$ 23,376
60%-69.99%	11,685	436	268	12,389
70%-79.99%	4,099	479	41	4,619
Greater than 80%	354	183	179	716
Total commercial and agricultural mortgage loans	$ 38,464	$ 1,792	$ 844	$ 41,100

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following tables set forth certain key credit quality indicators as of December 31, 2013, based upon the recorded investment gross of allowance for credit losses.

Commercial mortgage loans

	Debt Service Coverage Ratio December 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	$ 19,089	$ 597	$ 179	$ 19,865
60%-69.99%	11,101	379	95	11,575
70%-79.99%	4,005	422	216	4,643
Greater than 80%	325	173	275	773
Total commercial mortgage loans	$ 34,520	$ 1,571	$ 765	$ 36,856

Agricultural property loans

	Debt Service Coverage Ratio December 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
	(in millions)			
Loan-to-Value Ratio				
0%-59.99%	$ 2,023	$ 137	$ 0	$ 2,160
60%-69.99%	23	0	0	23
70%-79.99%	0	0	0	0
Greater than 80%	0	0	0	0
Total agricultural property loans	$ 2,046	$ 137	$ 0	$ 2,183

Total commercial and agricultural mortgage loans

	Debt Service Coverage Ratio December 31, 2013			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total

		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 21,112	$ 734	$ 179	$ 22,025
60%-69.99%	11,124	379	95	11,598
70%-79.99%	4,005	422	216	4,643
Greater than 80%	325	173	275	773
Total commercial and agricultural mortgage loans	$ 36,566	$ 1,708	$ 765	$ 39,039

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, 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 Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$ 38,918	$ 5	$ 3	$ 0	$ 1	$ 9	$ 38,927	$ 9
Agricultural property loans	2,172	0	0	0	1	1	2,173	1
Residential property loans	493	7	4	0	8	19	512	9
Other collateralized loans	328	0	0	0	0	0	328	3
Uncollateralized loans	1,232	0	0	0	0	0	1,232	2
Total	$ 43,143	$ 12	$ 7	$ 0	$ 10	$ 29	$ 43,172	$ 24

	December 31, 2013							
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$ 36,821	$ 16	$ 0	$ 0	$ 19	$ 35	$ 36,856	$ 154
Agricultural property loans	2,182	0	0	0	1	1	2,183	2
Residential property loans	520	11	3	0	10	24	544	10
Other collateralized loans	334	0	0	0	1	1	335	5
Uncollateralized loans	1,306	0	0	0	0	0	1,306	2
Total	$ 41,163	$ 27	$ 3	$ 0	$ 31	$ 61	$ 41,224	$ 173

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, 2013, for further discussion regarding nonaccrual status loans.

For both the three and six months ended June 30, 2014, there were no new commercial mortgage and other loans acquired, other than those through direct origination, nor were there any new commercial mortgage and other loans sold, other than those classified as held-for-sale. For the three months ended June 30, 2013, there were no new commercial mortgage and other loans acquired, other than those through direct origination, and there were $7 million of commercial mortgage and other loans sold, other than those classified as held-for-sale. For the six months ended June 20, 2013, there were $718 million of commercial mortgage and other loans acquired, other than those through direct origination and $7 million of commercial mortgage and other loans sold, other than those classified as held-for-sale.

The Company s commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. As of both June 30, 2014 and December 31, 2013, 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, 2014 and 2013, respectively, there were no new troubled debt restructurings related to commercial mortgage and other loans, and no payment defaults on commercial mortgage and other loans that were modified as a troubled debt restructuring within the 12 months preceding each respective period. For

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, 2013.

Net Investment Income

Net investment income for the three and six months ended June 30, 2014 and 2013, was from the following sources:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Fixed maturities, available-for-sale	$ 2,669	$ 2,641	$ 5,286	$ 5,292
Fixed maturities, held-to-maturity	42	30	82	61
Equity securities, available-for-sale	105	94	189	172
Trading account assets	259	234	517	472
Commercial mortgage and other loans	522	492	1,020	982
Policy loans	158	150	312	298
Short-term investments and cash equivalents	8	11	17	21
Other long-term investments	175	199	517	332
Gross investment income	3,938	3,851	7,940	7,630
Less: investment expenses	(184)	(140)	(348)	(281)
Net investment income	$ 3,754	$ 3,711	$ 7,592	$ 7,349

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three and six months ended June 30, 2014 and 2013, were from the following sources:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Fixed maturities	$ 367	$ 291	$ 624	$ 344
Equity securities	169	94	254	171
Commercial mortgage and other loans	8	24	16	37

Investment real-estate	0	0	0	0
Joint ventures and limited partnerships	0	(5)	1	(6)
Derivatives(1)	60	(1,430)	(85)	(2,300)
Other	5	2	7	7
Realized investment gains (losses), net	$ 609	$ (1,024)	$ 817	$ (1,747)

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, 2014	December 31, 2013
	(in millions)	
Fixed maturity securities on which an OTTI loss has been recognized	$ 284	$ 110
Fixed maturity securities, available-for-sale all other	26,432	18,029
Equity securities, available-for-sale	3,004	2,907
Derivatives designated as cash flow hedges(1)	(533)	(446)
Other investments(2)	15	4
Net unrealized gains (losses) on investments	$ 29,202	$ 20,604

(1) See Note 14 for more information on cash flow hedges.
(2) As of June 30, 2014, includes $11 million of net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale.

Duration of Gross Unrealized Loss Positions for Fixed Maturities and Equity Securities

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

	June 30, 2014					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 1,225	$ 5	$ 83	$ 3	$ 1,308	$ 8
Obligations of U.S. states and their political subdivisions	53	0	587	20	640	20
Foreign government bonds	967	26	2,046	112	3,013	138
Corporate securities	5,037	65	22,766	1,158	27,803	1,223
Commercial mortgage-backed securities	423	2	1,984	56	2,407	58

Asset-backed securities	1,358	7	2,883	143	4,241	150
Residential mortgage-backed securities	2	0	413	9	415	9
Total	$ 9,065	$ 105	$ 30,762	$ 1,501	$ 39,827	$ 1,606
Equity securities, available-for-sale	$ 492	$ 26	$ 1	$ 0	$ 493	$ 26

(1) Includes $174 million of fair value and $17 million of gross unrealized losses at June 30, 2014, on securities classified as held-to-maturity, a portion of which is not reflected in AOCI.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2013					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 3,913	$ 95	$ 6	$ 1	$ 3,919	$ 96
Obligations of U.S. states and their political subdivisions	1,187	129	43	8	1,230	137
Foreign government bonds	3,260	211	438	55	3,698	266
Corporate securities	29,574	1,618	14,094	1,814	43,668	3,432
Commercial mortgage-backed securities	4,267	128	605	35	4,872	163
Asset-backed securities	3,007	42	2,556	274	5,563	316
Residential mortgage-backed securities	1,590	34	239	7	1,829	41
Total	$ 46,798	$ 2,257	$ 17,981	$ 2,194	$ 64,779	$ 4,451
Equity securities, available-for-sale	$ 586	$ 24	$ 1	$ 0	$ 587	$ 24

(1) Includes $210 million of fair value and $24 million of gross unrealized losses at December 31, 2013, 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, 2014 and December 31, 2013, are composed of $1,484 million and $4,178 million, respectively, related to high or highest quality securities based on the National Association of Insurance Commissioners (NAIC) or equivalent rating and $122 million and $274 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. At June 30, 2014, the $1,501 million of gross unrealized losses of twelve months or more were concentrated in the consumer non-cyclical, utility, capital goods, and finance sectors of the Company s corporate securities. At December 31, 2013, the $2,194 million of gross unrealized losses of twelve months or more were concentrated in the consumer non-cyclical, utility, and capital goods 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 its 2013 Annual Report on Form 10-K, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at June 30, 2014 or December 31, 2013. 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 movements, credit spread widening and increased liquidity discounts. At June 30, 2014, 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 their remaining amortized cost bases.

At June 30, 2014, $2 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. At December 31, 2013, $4 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 its 2013 Annual Report on Form 10-K, the Company concluded that an adjustment for other-than-temporary impairments for these equity securities was not warranted at June 30, 2014 or December 31, 2013.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, or 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 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 VIE do not have recourse to the Company in excess of the assets contained within the VIE.

	Consolidated VIEs for Which the Company is the Investment Manager		Other Consolidated VIEs	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
	(in millions)			
Fixed maturities, available-for-sale	$ 54	$ 68	$ 115	$ 108
Fixed maturities, held-to-maturity	0	0	903	871
Trading account assets supporting insurance liabilities	0	0	10	11
Other trading account assets	5,473	3,832	0	0
Commercial mortgage and other loans	13	23	300	300
Other long-term investments	0	0	86	87
Cash and cash equivalents	493	566	0	(3)
Accrued investment income	26	19	4	4
Other assets	171	132	0	0
Total assets of consolidated VIEs	$ 6,230	$ 4,640	$ 1,418	$ 1,378
Notes issued by consolidated VIEs	$ 4,573	$ 3,302	$ 0	$ 0
Other liabilities	554	631	1	1
Total liabilities of consolidated VIEs	$ 5,127	$ 3,933	$ 1	$ 1

As included in the table above, notes issued by consolidated VIEs are classified in the line item on the 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, 2014, 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 exception. 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 $2,203 million and $2,381 million at June 30, 2014 and December 31, 2013, respectively, 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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 $154 million and $489 million at June 30, 2014 and December 31, 2013, 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 $8,185 million and $9,426 million as of June 30, 2014 and December 31, 2013, respectively. There are no liabilities associated with these unconsolidated VIEs on the Company s balance sheet.

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 $7,541 million and $7,244 million as of June 30, 2014 and December 31, 2013, 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 Business.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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 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, 2014 and December 31, 2013, the Company recognized a policyholder dividend obligation of $1,187 million and $887 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 $4,939 million and $3,624 million at June 30, 2014 and December 31, 2013, respectively, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in AOCI. See the table below for changes in the components of the policyholder dividend obligation for the six months ended June 30, 2014.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, 2014	December 31, 2013
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 50,040	$ 50,258
Policyholders dividends payable	902	907
Policyholders dividend obligation	6,126	4,511
Policyholders account balances	5,328	5,359
Other Closed Block liabilities	5,774	4,281
Total Closed Block Liabilities	68,170	65,316
Closed Block Assets		
Fixed maturities, available-for-sale, at fair value	41,402	39,169
Other trading account assets, at fair value	261	291
Equity securities, available-for-sale, at fair value	3,789	3,884
Commercial mortgage and other loans	9,073	8,762
Policy loans	4,945	5,013
Other long-term investments	2,607	2,085
Short-term investments	1,333	1,790
Total investments	63,410	60,994
Cash and cash equivalents	765	544
Accrued investment income	537	542
Other Closed Block assets	530	296
Total Closed Block Assets	65,242	62,376
Excess of reported Closed Block Liabilities over Closed Block Assets	2,928	2,940
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	4,931	3,615
Allocated to policyholder dividend obligation	(4,939)	(3,624)
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 2,920	$ 2,931

Information regarding the policyholder dividend obligation is as follows:

		Six Months Ended June 30, 2014 (in millions)
Balance, January 1	$	4,511
Impact from earnings allocable to policyholder dividend obligation		300
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation		1,315
Balance, June 30	$	6,126

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Closed Block revenues and benefits and expenses for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(in millions)			
Revenues				
Premiums	$ 711	$ 711	$ 1,350	$ 1,358
Net investment income	683	714	1,404	1,421
Realized investment gains (losses), net	369	(20)	504	76
Other income	19	5	34	15
Total Closed Block revenues	1,782	1,410	3,292	2,870
Benefits and Expenses				
Policyholders benefits	911	870	1,703	1,685
Interest credited to policyholders account balances	33	34	67	68
Dividends to policyholders	688	408	1,265	911
General and administrative expenses	111	118	225	237
Total Closed Block benefits and expenses	1,743	1,430	3,260	2,901
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	39	(20)	32	(31)
Income tax expense (benefit)	33	(25)	21	(41)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	6	5	11	10
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	$ 6	$ 5	$ 11	$ 10

7. EQUITY

The Company has outstanding two classes of common stock: the Common Stock and the Class B Stock. The changes in the number of shares issued, held in treasury and outstanding are as follows for the periods indicated:

	Common Stock	Class B Stock

	Issued	Held In Treasury	Outstanding	Issued and Outstanding
			(in millions)	
Balance, December 31, 2013	660.1	199.0	461.1	2.0
Common Stock issued	0.0	0.0	0.0	0.0
Common Stock acquired	0.0	5.9	(5.9)	0.0
Stock-based compensation programs(1)	0.0	(3.2)	3.2	0.0
Balance, June 30, 2014	660.1	201.7	458.4	2.0

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

In June 2013, 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, 2013 through June 30

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

2014. As of June 30, 2014, 12.0 million shares of the Company s common stock were repurchased under this authorization at a total cost of $1.0 billion, of which 5.9 million shares were repurchased in the first six months of 2014 at a total cost of $500 million.

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. The timing and amount of share repurchases are determined by management based upon market conditions and other considerations, and repurchases may be 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.

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, 2014 and 2013 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 Other Comprehensive Income (Loss)
	(in millions)			
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

	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	Total Accumulated Other Comprehensive

			Benefit (Cost)	Income (Loss)
		(in millions)		
Balance, December 31, 2012	$ 928	$ 11,402	$ (2,116)	$ 10,214
Change in other comprehensive income before reclassifications	(1,416)	(628)	30	(2,014)
Amounts reclassified from AOCI	0	(524)	63	(461)
Income tax benefit (expense)	401	342	(33)	710
Balance, June 30, 2013	$ (87)	$ 10,592	$ (2,056)	$ 8,449

(1) Includes cash flow hedges of $(533) million and $(446) million as of June 30, 2014 and December 31, 2013, respectively, and $(98) million and $(257) million as of June 30, 2013 and December 31, 2012, 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,		Six Months Ended June 30,		Affected line item in Consolidated Statement of Operations
	2014	2013	2014	2013	
	(in millions)				
Amounts reclassified from AOCI(1)(2):					
Foreign currency translation adjustment:					
Foreign currency translation adjustments	$ 1	$ 1	$ 2	$ 0	Realized investment gains (losses), net
Total foreign currency translation adjustment	1	1	2	0	
Net unrealized investment gains (losses):					
Cash flow hedges Interest Rate	(6)	(8)	(12)	(12)	(3)
Cash flow hedges Currency/Interest rate	(6)	(26)	(10)	(44)	(3)
Net unrealized investment gains (losses) on available-for-sale securities	536	384	878	514	
Net unrealized investment gains (losses) all other	0	0	0	66	
Total net unrealized investment gains (losses)	524	350	856	524	(4)
Amortization of defined benefit pension items:					
Prior service cost	5	5	11	11	(5)
Actuarial gain (loss)	(29)	(37)	(57)	(74)	(5)
Total amortization of defined benefit pension items	(24)	(32)	(46)	(63)	
Total reclassifications for the period	$ 501	$ 319	$ 812	$ 461	

(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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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:

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, Deferred 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, 2013	$ 110	$ (5)	$ 4	$ 64	$ (60)	$ 113
Net investment gains (losses) on investments arising during the period	134				(47)	87
Reclassification adjustment for (gains) losses included in net income	41				(14)	27
Reclassification adjustment for OTTI losses excluded from net income(1)	(1)				0	(1)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(1)			0	(1)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			(3)		1	(2)
Impact of net unrealized investment (gains) losses on				(97)	34	(63)

policyholders dividends						
Balance, June 30, 2014	$ 284	$ (6)	$ 1	$ (33)	$ (86)	$ 160

(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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

All Other Net Unrealized Investment Gains and Losses in AOCI

	Net Unrealized Gains (Losses) on Investments(1)	Deferred Policy Acquisition Cost, Deferred 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, 2013	$ 20,494	$ (719)	$ (679)	$ (3,694)	$ (5,171)	$ 10,231
Net investment gains (losses) on investments arising during the period	9,320				(3,194)	6,126
Reclassification adjustment for (gains) losses included in net income	(897)				314	(583)
Reclassification adjustment for OTTI losses excluded from net income(2)	1				0	1
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and value of business acquired		(398)			139	(259)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			(554)		195	(359)
Impact of net unrealized investment (gains) losses on policyholders dividends				(1,222)	426	(796)
Balance, June 30, 2014	$ 28,918	$ (1,117)	$ (1,233)	$ (4,916)	$ (7,291)	$ 14,361

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

The Company has outstanding two separate classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business. Accordingly, earnings per share is calculated separately for each of these two classes of common stock.

Net income for the Financial Services Businesses and the Closed Block Business is determined in accordance with U.S. GAAP and includes general and administrative expenses charged to each of the respective

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

businesses based on the Company s methodology for the allocation of such expenses. Cash flows between the Financial Services Businesses and the Closed Block Business related to administrative expenses are determined by a policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. To the extent reported administrative expenses vary from these cash flow amounts, the differences are recorded, on an after tax basis, as direct equity adjustments to the equity balances of the businesses. The direct equity adjustments modify the earnings available to each of the classes of common stock for earnings per share purposes.

Common Stock

A reconciliation of the numerators and denominators of the basic and diluted per share computations is as follows:

	Three Months Ended June 30,					
	2014			2013		
	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 attributable to the Financial Services Businesses	$ 1,068			$ (492)		
Direct equity adjustment	(3)			1		
Less: Income (loss) attributable to noncontrolling interests	23			27		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	10			2		
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	$ (520)	464.1	$ (1.12)
Effect of dilutive securities and compensation programs(1)						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Basic	$ 10			$ 2		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Diluted	10			2		
Stock options		3.0			0.0	
Deferred and long-term compensation programs		0.7			0.0	
Exchangeable Surplus Notes	5	5.4		0	0.0	
Diluted earnings per share(1)						
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	$ (520)	464.1	$ (1.12)

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	Six Months Ended June 30,					
	2014			2013		
	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 attributable to the Financial Services Businesses	$ 2,300			$ (1,193)		
Direct equity adjustment	(5)			5		
Less: Income (loss) attributable to noncontrolling interests	34			62		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	21			4		
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 2,240	460.1	$ 4.87	$ (1,254)	464.2	$ (2.70)
Effect of dilutive securities and compensation programs(1)						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Basic	$ 21			$ 4		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Diluted	21			4		
Stock options		3.1			0.0	
Deferred and long-term compensation programs		0.8			0.0	
Exchangeable Surplus Notes	9	5.4		0	0.0	
Diluted earnings per share(1)						
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 2,249	469.4	$ 4.79	$ (1,254)	464.2	$ (2.70)

(1) For the three and six months ended June 30, 2013, weighted average shares for basic earnings per share is also used for calculating diluted earnings per share because dilutive shares and dilutive earnings per share are not applicable when a loss from continuing operations is reported. As a result of the loss from continuing operations available to holders of Common Stock after direct equity adjustment for the three and six months ended June 30, 2013, all potential stock options and compensation programs were considered antidilutive.

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 of the Financial Services Businesses 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, 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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

available to holders of Common Stock after direct equity adjustment, 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. For the three and six months ended June 30, 2013, undistributed earnings were not allocated to participating unvested share-based payment awards as these awards do not participate in losses. Undistributed earnings allocated to participating unvested share-based payment awards for the three and six months ended June 30, 2014 were based on 4.3 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. 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. For the three and six months ended June 30, 2014 and 2013, 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:

	Three Months Ended June 30,			
	2014		2013	
	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	2.3	$ 89.48	9.1	$ 72.64
Antidilutive stock options due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		11.3	
Antidilutive shares due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		5.2	
Total antidilutive stock options and shares	2.3		25.6	

	Six Months Ended June 30,			
	2014		2013	
	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	$ 89.88	11.2	$ 70.73
Antidilutive stock options due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		9.2	
Antidilutive shares due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		5.2	
Total antidilutive stock options and shares	2.1		25.6	

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

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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.

Prudential Financial may, at its option, at any time, subject to a notification period, exchange all outstanding shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 120% of the appraised fair market value of the outstanding shares of Class B Stock. Holders of Class B Stock will be permitted to convert their shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 100% of the appraised fair market value of the outstanding shares of Class B Stock in the holder s sole discretion, beginning on January 1, 2016, or earlier upon certain specified events. Any conversion may have a dilutive effect on holders of Common Stock.

Class B Stock

Income from continuing operations per share of Class B Stock for the three and six months ended June 30 are presented below. There are no potentially dilutive shares associated with the Class B Stock.

	Three Months Ended June 30,					
	2014			2013		
	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 attributable to the Closed Block Business	$ 41			$ 3		
Less: Direct equity adjustment	(3)			1		
Income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	$ 44	2.0	$ 22.00	$ 2	2.0	$ 1.00

	Six Months Ended June 30,					
	2014			2013		
	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 attributable to the Closed Block Business	$ 54			$ 18		
Less: Direct equity adjustment	(5)			5		
Income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	$ 59	2.0	$ 29.50	$ 13	2.0	$ 6.50

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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:

	June 30, 2014	December 31, 2013
	(in millions)	
Commercial paper:		
Prudential Financial	$ 268	$ 190
Prudential Funding, LLC	710	460
Subtotal commercial paper	978	650
Other notes payable	326	0
Current portion of long-term debt(1)	2,500	2,019
Total short-term debt(2)	$ 3,804	$ 2,669
Supplemental short-term debt information:		
Portion of commercial paper borrowings due overnight	$ 357	$ 466
Daily average commercial paper outstanding	$ 1,366	$ 1,309
Weighted average maturity of outstanding commercial paper, in days	35	18
Weighted average interest rate on outstanding short-term debt(3)	0.23%	0.17%

(1) Includes limited and non-recourse borrowings of Prudential Holdings, LLC attributable to the Closed Block Business of $75 million at both June 30, 2014 and December 31, 2013.
(2) Includes Prudential Financial debt of $2,589 million and $1,721 million at June 30, 2014 and December 31, 2013, 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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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, 2013, the 5% limitation equates to a maximum amount of pledged assets of $8.6 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels) of approximately $7.2 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, 2014, Prudential Insurance had pledged assets with a fair value of $2.7 billion supporting aggregate outstanding collateralized advances and collateralized funding agreements of $2.2 billion. As of June 30, 2014, an outstanding advance of $0.3 billion is in Long-term debt and matures in December 2015 and outstanding funding agreements, totaling $1.9 billion are included in Policyholders account balances. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to $4.1 billion as of June 30, 2014.

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, 2014, 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 $0.2 billion.

Credit Facilities

The Company s syndicated, unsecured committed credit facilities at June 30, 2014 are as follows:

Borrower	Original Term	Expiration Date	Capacity	Outstanding
			(in millions)	
Prudential Financial	5-year	Nov-2018	$ 2,000	$ 0
Prudential Financial and Prudential Funding	3-year	Nov-2016	1,750	0
			$ 3,750	$ 0

The above credit facilities may be used for general corporate purposes, including as backup liquidity for the Company s commercial paper programs discussed above. As of June 30, 2014, there were no outstanding

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borrowings under either credit facility. Prudential Financial expects that it may borrow under the five-year credit facility from time to time to fund its working capital needs and those of its subsidiaries. In addition, up to $300 million of the five-year facility may be drawn in the form of standby letters of credit that can be used to meet the Company s operating needs.

The credit facilities contain representations and warranties, covenants and events of default that are customary for facilities of this type; however, borrowings under the facilities are not contingent on the Company s credit ratings nor subject to material adverse change clauses. Borrowings under the credit facilities are conditioned on the continued satisfaction of other customary conditions, including the maintenance at all times of consolidated net worth, relating to the Company s Financial Services Businesses only, of at least $18,985 million, which for this purpose is calculated as U.S. GAAP equity, excluding AOCI and excluding equity of noncontrolling interests. As of June 30, 2014, the consolidated net worth of the Company s Financial Services Businesses exceeded the minimum amount required to borrow under the credit facilities.

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 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

From 2011 through 2013, a captive reinsurance subsidiary of Prudential Insurance entered into agreements providing for the issuance and sale of up to $2.0 billion of ten-year fixed-rate surplus notes for the purpose of financing non-economic reserves under a regulation entitled Valuation of Life Insurance Policies Model Regulation, commonly known as Regulation XXX. Under these agreements, the captive receives in exchange for the surplus notes one or more credit-linked notes issued by a special-purpose subsidiary of the Company in an aggregate principal amount equal to the surplus notes issued. At June 30, 2014, $1,750 million of surplus notes were outstanding under these agreements, an increase of $250 million from December 31, 2013.

In December 2013, another captive reinsurance subsidiary entered into a twenty-year financing facility with external counterparties providing for the issuance and sale of a surplus note in an aggregate principal amount of

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

up to $2.0 billion in order to finance non-economic reserves under a supporting guideline entitled The Application of the Valuation of Life Insurance Policies Model Regulation, commonly known as Guideline AXXX. In June 2014, the facility was amended to increase the current financing capacity available under the facility from $2.0 billion to $3.5 billion, increase the maximum potential size of the facility to $4.0 billion and add additional external counterparties. Similar to the agreements described above, the captive receives in exchange for the surplus note one or more credit linked notes issued by a special-purpose affiliate in an aggregate principal amount equal to the surplus note. As of June 30, 2014, an aggregate of $1,838 million of surplus notes were outstanding under the facility, an increase of $938 million from December 31, 2013.

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 the credit-linked notes issued are settled on a net basis, and the surplus notes are reflected in the Company s total consolidated borrowings on a net basis.

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 billion. As of June 30, 2014, the outstanding amount of medium-term notes issued under this program was $13.4 billion, an increase of $0.7 billion from December 31, 2013, due to $1.2 billion of issuances, as presented in the following table, offset by maturities of $0.5 billion.

Issue Date	Principal Amount (in millions)	Interest Rate	Maturity Date
May 15, 2014	$ 500	4.600%	May 15, 2044
May 15, 2014	$ 700	3.500%	May 15, 2024

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. 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 59	$ 62	$ 4	$ 4
Interest cost	121	109	24	22
Expected return on plan assets	(179)	(192)	(29)	(21)
Amortization of prior service cost	(2)	(2)	(3)	(3)
Amortization of actuarial (gain) loss, net	22	23	7	14
Settlements	1	0	0	0
Special termination benefits	0	0	0	0
Net periodic (benefit) cost	$ 22	$ 0	$ 3	$ 16

	Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
	(in millions)			
Service cost	$ 118	$ 127	$ 8	$ 8
Interest cost	241	219	48	44
Expected return on plan assets	(356)	(384)	(58)	(42)
Amortization of prior service cost	(5)	(5)	(6)	(6)
Amortization of actuarial (gain) loss, net	43	46	14	28
Settlements	2	0	0	0
Special termination benefits	0	2	0	0
Net periodic (benefit) cost	$ 43	$ 5	$ 6	$ 32

11. SEGMENT INFORMATION

Segments

The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. Within the Financial Services Businesses, the Company operates through three divisions, which together encompass six reportable segments. Businesses that are not sufficiently material to warrant separate disclosure and divested businesses are included in Corporate and Other operations within the Financial Services Businesses. Collectively, the businesses that comprise the three operating divisions and Corporate and Other are referred to as the Financial Services Businesses.

Adjusted Operating Income

In managing the Financial Services Businesses, 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 as determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company to

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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;
- net investment gains and 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 the Financial Services 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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(in millions)			
Net gains (losses) from:(1)				
Terminated hedges of foreign currency earnings	$ 66	$ 67	$ 144	$ 103
Current period yield adjustments	$ 122	$ 103	$ 246	$ 205
Principal source of earnings	$ 13	$ 43	$ 27	$ 69

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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 derivatives contracts that were terminated or offset before their final maturity of $34 million and $18 million for the three months ended June 30, 2014 and 2013, respectively, and $52 million and $36 million for the six months ended June 30, 2014 and 2013, respectively. Additionally, as of June 30, 2014, there was a $362 million deferred net gain related to certain derivative contracts that were terminated or offset before their final maturity, primarily in the International Insurance segment.

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 related 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
	(in millions)			
Net gains (losses) from:				
Other trading account assets	$ 11	$ 36	$ 33	$ 85
Foreign currency exchange movements	$ (231)	$ (1,560)	$ 0	$ (4,025)
Other activities	$ 9	$ 1	$ 13	$ 112

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 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 are 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, and the related change in value is recorded in earnings within Other income. Due to this non-economic volatility that is reflected in U.S. GAAP earnings, the change in value recorded within Other income is excluded from adjusted operating income.

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 estimated recoveries related to this matter of $9 million and $16 million in the three and six months ended June 30, 2014, respectively, and $117 million in the six months ended June 30, 2013. 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 that relates to the uncollateralized portion of certain derivative contracts between a subsidiary of the Company and third parties and liquidity risk

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 less than $1 million and net gains of $4 million for the three months ended June 30, 2014 and 2013, respectively, and net losses of $2 million and net gains of $2 million for the six months ended June 30, 2014 and 2013, 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 deferred policy acquisition costs, value of business acquired, 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 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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 relevant to understanding the Company s ongoing operating results.

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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The summary below reconciles adjusted operating income before income taxes for the Financial Services Businesses to income from continuing operations before income taxes and equity in earnings of operating joint ventures:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:				
Individual Annuities	$ 390	$ 400	$ 778	$ 772
Retirement	286	279	650	507
Asset Management	200	172	393	341
Total U.S. Retirement Solutions and Investment Management Division	876	851	1,821	1,620
Individual Life	158	141	283	278
Group Insurance	46	22	52	31
Total U.S. Individual Life and Group Insurance Division	204	163	335	309
International Insurance	884	850	1,721	1,727
Total International Insurance Division	884	850	1,721	1,727
Corporate Operations	(341)	(347)	(683)	(661)
Total Corporate and Other	(341)	(347)	(683)	(661)
Adjusted Operating Income before income taxes for Financial Services Businesses	1,623	1,517	3,194	2,995
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	(202)	(2,698)	(153)	(6,003)
Charges related to realized investment gains (losses), net	(71)	468	(128)	770
Investment gains (losses) on trading account assets supporting insurance liabilities, net	225	(471)	326	(376)
Change in experience-rated contractholder liabilities due to asset value changes	(189)	471	(232)	328
Divested businesses	47	(84)	120	(55)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	18	24	29	(10)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,451	(773)	3,156	(2,351)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business	56	4	69	23

Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,507	$ (769)	$ 3,225	$ (2,328)

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The Individual Annuities segment results reflect deferred policy acquisition costs 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 summary below presents revenues and total assets for the Company s reportable segments for the periods or as of the dates indicated:

	Revenue				Total Assets	
	Three Months Ended June 30,		Six Months Ended June 30,		June 30,	December 31,
	2014	2013	2014	2013	2014	2013
	(in millions)					
Financial Services Businesses:						
Individual Annuities	$ 1,171	$ 1,119	$ 2,328	$ 2,187	$ 169,535	$ 160,778
Retirement	1,469	1,521	3,000	2,857	175,172	170,762
Asset Management	713	662	1,380	1,304	47,905	45,040
Total U.S. Retirement Solutions and Investment Management Division	3,353	3,302	6,708	6,348	392,612	376,580
Individual Life	1,318	1,212	2,614	2,367	70,390	64,990
Group Insurance	1,342	1,399	2,704	2,801	40,784	39,185
Total U.S. Individual Life and Group Insurance Division	2,660	2,611	5,318	5,168	111,174	104,175
International Insurance	5,252	5,940	10,327	12,290	180,465	168,677
Total International Insurance Division	5,252	5,940	10,327	12,290	180,465	168,677
Corporate Operations	(152)	(133)	(304)	(286)	10,000	13,947
Total Corporate and Other	(152)	(133)	(304)	(286)	10,000	13,947
Total	11,113	11,720	22,049	23,520	694,251	663,379
Reconciling items:						
Realized investment gains (losses), net, and related adjustments	(202)	(2,700)	(153)	(6,005)		
Charges related to realized investment gains (losses), net	(3)	(85)	(11)	(154)		
Investment gains (losses) on trading account assets supporting insurance liabilities, net	225	(471)	326	(376)		
Divested businesses	182	117	392	316		
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(4)	(4)	(4)	(72)		

Total Financial Services Businesses	11,311	8,577	22,599	17,229	694,251	663,379
Closed Block Business	1,835	1,464	3,401	2,983	71,286	68,402
Total per Unaudited Interim Consolidated Financial Statements	$ 13,146	$ 10,041	$ 26,000	$ 20,212	$ 765,537	$ 731,781

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Asset Management segment intersegment revenues	$ 154	$ 153	$ 310	$ 303

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, 2014:

Major Tax Jurisdiction	Open Tax Years
United States	2004 2013
Japan	Fiscal years ended March 31, 2009 2014
Korea	Fiscal years ended March 31, 2009 2013 and the period ended December 31, 2013

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 2013 and current year results, and was adjusted to take into account the current year s equity market performance. 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.

In August 2007, the IRS released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the DRD related to variable life insurance and annuity contracts. In September 2007, the IRS released Revenue Ruling 2007-61. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54 and informed taxpayers that the U.S. Treasury Department and the IRS intend to address through new guidance the issues considered in Revenue Ruling 2007-54, including the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. In May 2010, the IRS issued an Industry Director Directive (IDD) confirming that the methodology for calculating the DRD set forth in Revenue Ruling 2007-54 should not be followed. The IDD also confirmed that the IRS guidance issued before

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Revenue Ruling 2007-54, which guidance the Company relied upon in calculating its DRD, should be used to determine the DRD. In February 2014, the IRS released Revenue Ruling 2014-7, which modified and superseded Revenue Ruling 2007-54, by removing the provisions of Revenue Ruling 2007-54 related to the methodology to be followed in calculating the DRD and obsoleting Revenue Ruling 2007-61. These activities had no impact on the Company s results in 2013 or in the first six months of 2014. However, there remains the possibility that the IRS and the U.S. Treasury will address, through subsequent 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 a proposal that would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through guidance or legislation, could increase actual tax expense and reduce the Company s consolidated net income.

For tax years 2007 through 2014, 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.

In July 2014, the IRS issued an IDD relating to the hedging of variable annuity guaranteed minimum benefits (Hedging IDD). The Hedging IDD provides an elective safe harbor tax accounting method for these hedging activities that can be applied to open years under IRS examination beginning with the earliest open year. The Company is analyzing the potential impact of electing this tax accounting method.

Total income tax expense includes additional U.S. income tax expense related to the realization of local deferred tax assets recorded in the Statement 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 June 30, 2014, additional U.S. income tax expense related to the utilization of opening balance sheet local deferred tax assets has been recognized between the Statement of Operations and Other Comprehensive Income as follows:

	Prudential Gibraltar	Star and Edison Businesses (in millions)	Total
Opening balance sheet local deferred tax assets after valuation allowance that will result in additional U.S. income tax expense	$ 56	$ 678	$ 734
Additional U.S. income tax expense (benefit) recognized in the Statement of Operations:			
2009	13	0	13
2010	6	0	6
2011	(29)	252	223
2012	51	333	384
2013	15	40	55
Six months ended June 30, 2014	0	32	32
Subtotal	56	657	713
Additional U.S. income tax expense (benefit) recognized in Other Comprehensive Income	0	0	0

Unrecognized balance of additional U.S. income tax expense	$ 0	$ 21	$ 21

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

On January 1, 2012, the Star and Edison Businesses merged into Gibraltar Life. The majority of additional U.S. income tax expense recognized in 2012 was a result of the merger. During 2013, the Company changed its repatriation assumption for Gibraltar Life and Prudential Gibraltar, which resulted in the Company recording an additional U.S. income tax expense of $108 million in the first six months of 2013. Future losses in pre-tax income of Gibraltar Life, such as that caused by the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities, may reduce the amount of additional U.S income tax expense recognized in the Consolidated Statements of Operations and increase the amount of additional U.S. income tax expense recognized in Other Comprehensive Income.

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:

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), certain commercial mortgage loans, short-term investments and certain cash equivalents (primarily commercial paper), and certain over-the-counter 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 over-the-counter 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.

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

	As of June 30, 2014				
	Level 1	Level 2	Level 3 (in millions)	Netting(1)	Total
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 17,099	$ 0	$	$ 17,099
Obligations of U.S. states and their political subdivisions	0	5,312	0		5,312
Foreign government bonds	0	88,136	2		88,138
Corporate securities	0	160,986	1,295		162,281
Asset-backed securities	0	6,583	4,133		10,716
Commercial mortgage-backed securities	0	14,393	49		14,442
Residential mortgage-backed securities	0	6,477	7		6,484
Subtotal	0	298,986	5,486		304,472
Trading account assets:(2)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	192	0		192
Obligations of U.S. states and their political subdivisions	0	191	0		191
Foreign government bonds	0	695	12		707
Corporate securities	0	18,803	129		18,932
Asset-backed securities	0	891	453		1,344
Commercial mortgage-backed securities	0	2,512	2		2,514
Residential mortgage-backed securities	0	1,794	2		1,796
Equity securities	1,408	221	763		2,392
All other(3)	704	8,863	6	(7,703)	1,870
Subtotal	2,112	34,162	1,367	(7,703)	29,938
Equity securities, available-for-sale	7,025	2,898	299		10,222
Commercial mortgage and other loans	0	204	0		204
Other long-term investments	19	161	1,442	(11)	1,611
Short-term investments	4,203	942	0		5,145
Cash equivalents	2,008	5,080	0		7,088
Other assets	3	158	4		165
Subtotal excluding separate account assets	15,370	342,591	8,598	(7,714)	358,845
Separate account assets(4)	50,568	222,454	23,779		296,801
Total assets	$ 65,938	$ 565,045	$ 32,377	$ (7,714)	$ 655,646
Future policy benefits(5)	$ 0	$ 0	$ 3,400	$	$ 3,400
Other liabilities	4	7,619	5	(7,055)	573
Notes of consolidated VIEs	0	0	4,539		4,539

Total liabilities	$ 4	$ 7,619	$ 7,944	$ (7,055)	$ 8,512

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	As of December 31, 2013				
	Level 1	Level 2	Level 3 (in millions)	Netting(1)	Total
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 15,400	$ 0	$	$ 15,400
Obligations of U.S. states and their political subdivisions	0	3,735	0		3,735
Foreign government bonds	0	82,787	1		82,788
Corporate securities	0	152,449	1,329		153,778
Asset-backed securities	0	7,147	3,442		10,589
Commercial mortgage-backed securities	0	13,708	165		13,873
Residential mortgage-backed securities	0	6,695	8		6,703
Subtotal	0	281,921	4,945		286,866
Trading account assets:(2)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	266	0		266
Obligations of U.S. states and their political subdivisions	0	190	0		190
Foreign government bonds	0	643	0		643
Corporate securities	0	16,865	115		16,980
Asset-backed securities	0	876	403		1,279
Commercial mortgage-backed securities	0	2,466	0		2,466
Residential mortgage-backed securities	0	1,828	2		1,830
Equity securities	1,309	225	842		2,376
All other(3)	591	7,899	6	(7,246)	1,250
Subtotal	1,900	31,258	1,368	(7,246)	27,280
Equity securities, available-for-sale	6,938	2,668	304		9,910
Commercial mortgage and other loans	0	158	0		158
Other long-term investments	19	109	1,396	5	1,529
Short-term investments	6,139	1,046	0		7,185
Cash equivalents	2,461	4,521	0		6,982
Other assets	3	209	4		216
Subtotal excluding separate account assets	17,460	321,890	8,017	(7,241)	340,126
Separate account assets(4)	49,182	213,275	22,603		285,060
Total assets	$ 66,642	$ 535,165	$ 30,620	$ (7,241)	$ 625,186
Future policy benefits(5)	$ 0	$ 0	$ 441	$	$ 441
Other liabilities	1	9,458	5	(7,257)	2,207
Notes of consolidated VIEs	0	0	3,254		3,254
Total liabilities	$ 1	$ 9,458	$ 3,700	$ (7,257)	$ 5,902

(1) Netting amounts represent cash collateral of $659 million and ($16) million as of June 30, 2014 and December 31, 2013, 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(4) 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 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 Statement of Financial Position.

(5) As of June 30, 2014, the net embedded derivative liability position of $3.4 billion includes $1.0 billion of embedded derivatives in an asset position and $4.4 billion of embedded derivatives in a liability position. As of December 31, 2013, the net embedded derivative liability position of $0.4 billion includes $1.5 billion of embedded derivatives in an asset position and $1.9 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.

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. 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. If the pricing information received from third party pricing services is 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. 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 service 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 over-ride the information with an internally-developed valuation. As of June 30, 2014 and December 31, 2013, over-rides on a net basis were not material. Pricing service over-rides, internally-developed valuations and indicative broker quotes are generally included in Level 3 in the fair value hierarchy.

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 a discounted cash flow model. If the fair value is determined using pricing inputs that are observable in the market, the securities have been reflected within Level 2; otherwise a Level 3 classification is used.

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

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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 pre-determined price, which is considered the principal exit market for these loans. The Company has evaluated the valuation inputs used for these assets, including the existence of pre-determined 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. 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, non-performance risk (NPR), liquidity and other factors. 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.

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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 over-the-counter (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 LIBOR into the discount rate used in determining the fair value of OTC derivative assets and liabilities that are not otherwise collateralized.

Derivatives classified as Level 3 include 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 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 of Consolidated VIEs The fair values of these notes are based on broker quotes and classified within Level 3. See Note 5 and the Fair Value Option section 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.

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Future Policy Benefits The liability for future policy benefits primarily includes general account liabilities for the optional living benefit features of the Company s variable annuity contracts, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB), accounted for as embedded derivatives. The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, 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 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 in the third quarter of each year unless a material change that the Company feels is indicative of a long term trend is observed in an interim period.

Transfers between Levels 1 and 2 Transfers into or out of Level 1 and 2 are generally reported as the values as of the beginning of the period in which the transfer occurs. 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. In addition, the classification of Separate Account funds may vary dependent on the availability of information to the public. Should a fund s net asset value become publicly observable, the fund would be 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. During the three months ended June 30, 2013, $50 million were transferred from Level 1 to Level 2 and $6 million were transferred from Level 2 to Level 1. During the six months ended June 30, 2013, $56 million were transferred from Level 1 to Level 2 and $2.3 billion were transferred from Level 2 to Level 1.

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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, 2014		
	Internal(1)	External(2) (in millions)	Total
Foreign government bonds	$ 0	$ 14	$ 14
Corporate securities	660	764	1,424
Asset-backed securities	229	4,357	4,586
Commercial mortgage-backed securities	13	38	51
Residential mortgage-backed securities	3	6	9
Equity securities	141	921	1,062
Other long-term investments	5	1,437	1,442
Other assets	10	0	10
Subtotal excluding separate account assets(3)	1,061	7,537	8,598
Separate account assets	22,850	929	23,779
Total assets	$ 23,911	$ 8,466	$ 32,377
Future policy benefits	$ 3,400	$ 0	$ 3,400
Other liabilities	5	0	5
Notes of consolidated VIEs	0	4,539	4,539
Total liabilities	$ 3,405	$ 4,539	$ 7,944

	As of December 31, 2013		
	Internal(1)	External(2) (in millions)	Total
Foreign government bonds	$ 0	$ 1	$ 1
Corporate securities	660	784	1,444
Asset-backed securities	283	3,562	3,845
Commercial mortgage-backed securities	14	151	165
Residential mortgage-backed securities	3	7	10
Equity securities	141	1,005	1,146
Other long-term investments	9	1,387	1,396
Other assets	10	0	10
Subtotal excluding separate account assets(3)	1,120	6,897	8,017
Separate account assets	21,665	938	22,603
Total assets	$ 22,785	$ 7,835	$ 30,620

Future policy benefits	$ 441	$ 0	$ 441
Other liabilities	5	0	5
Notes of consolidated VIEs	0	3,254	3,254
Total liabilities	$ 446	$ 3,254	$ 3,700

(1) Represents valuations reflecting both internally-derived and market inputs, as well as third-party pricing information or quotes. See below for additional information related to internally-developed valuation for significant items in the above table.
(2) Represents unadjusted prices from independent pricing services and independent non-binding 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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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, 2014							
	Fair Value (in millions)	Valuation Techniques	Unobservable Inputs	Minimum		Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:								
Corporate securities	$ 660	Discounted cash flow	Discount rate	1.12%	-	15%	9.45%	Decrease
		Market comparables	EBITDA multiples(2)	5.0X	-	8.25X	6.06X	Increase
		Liquidation	Liquidation value	16.90%	-	92.36%	65.76%	Increase
Asset-backed securities	$ 229	Discounted cash flow	Prepayment rate(3)	2.82%	-	28.03%	5.82%	Increase
			Default rate(3)	0.49%	-	6.14%	0.74%	Decrease
			Loss severity(3)	35.00%	-	45.00%	40.77%	Decrease
			Liquidity premium	1.00%	-	2.00%	1.90%	Decrease
			Average life (years)	0.35	-	14.02	5.34	Increase
			Comparable spreads	0.16%	-	5.79%	1.08%	Decrease
			Comparable security yields	0.66%	-	10.00%	5.73%	Decrease
Liabilities:								
Future policy benefits(4)	$ 3,400	Discounted cash flow	Lapse rate(5)	0%	-	11%		Decrease
			NPR spread(6)	0.02%	-	1.03%		Decrease
			Utilization rate(7)	70%	-	98%		Increase
			Withdrawal rate(8)	86%	-	100%		Increase
			Mortality rate(9)	0%	-	13%		Decrease
			Equity volatility curve	14%	-	28%		Increase

	As of December 31, 2013							
	Fair Value (in millions)	Valuation Techniques	Unobservable Inputs	Minimum		Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
Assets:								
Corporate securities	$ 660	Discounted cash flow	Discount rate	1.25%	-	15%	8.52%	Decrease
		Market comparables	EBITDA multiples(2)	5.0X	-	8.0X	6.0X	Increase
		Liquidation	Liquidation value	11.61%	-	100.0%	59.17%	Increase
Asset-backed securities	$ 283	Discounted cash flow	Prepayment rate(3)	2.82%	-	27.41%	10.23%	Increase
			Default rate(3)	0.49%	-	31.85%	2.62%	Decrease
			Loss severity(3)	15.06%	-	45.00%	33.00%	Decrease
			Liquidity premium	1.00%	-	2.00%	1.90%	Decrease
			Average life (years)	0.16	-	14.76	5.05	Increase
			Comparable spreads	0.19%	-	45.19%	3.65%	Decrease
			Comparable security yields	0.61%	-	10.00%	6.52%	Decrease
Liabilities:								

Future policy benefits(4)	$ 441	Discounted cash flow	Lapse rate(5)	0%	-	11%	Decrease
			NPR spread(6)	0.08%	-	1.09%	Decrease
			Utilization rate(7)	70%	-	94%	Increase
			Withdrawal rate(8)	86%	-	100%	Increase
			Mortality rate(9)	0%	-	13%	Decrease
			Equity volatility curve	15%	-	28%	Increase

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(1) Conversely, the impact of a decrease in input would have the opposite impact for the fair value as that presented in the table.
(2) EBITDA multiples represent multiples of earnings before interest, taxes, depreciation and amortization, and are amounts used when the reporting entity has determined that market participants would use such multiples when pricing the investments.
(3) In isolation, an increase in prepayment rate or a decrease in default rate or loss severity would generally result in an increase in fair value, although the interrelationships between these inputs depend on specific market conditions.
(4) Future policy benefits primarily represent general account liabilities for the optional 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.
(5) Base lapse rates are adjusted at the contract level based on a comparison of the benefit amount and the policyholder account value and reflect other factors, such as the applicability of any surrender charges. A dynamic lapse adjustment reduces the base lapse rate when the benefit amount is greater than the account value, as in-the-money contracts are less likely to lapse. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.
(6) 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.
(7) 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. These assumptions vary based on the product type, the age of the contractholder and the age of the contract. The impact of changes in these assumptions is highly dependent on the contract type and age of the contractholder at the time of the sale and the timing of the first lifetime income withdrawal.
(8) The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. The fair value of the liability will generally increase the closer the withdrawal rate is to 100%.
(9) 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.

Asset-Backed Securities Interrelationships may exist between the prepayment rate, the default rate and/or loss severity, depending on specific market conditions. In stronger business cycles, prepayment rates are generally driven by overall market interest rates, and accompanied by lower default rates and loss severity. During weaker cycles, prepayments may decline, as default rates and loss severity increase. Additionally, the impact of these factors on average life varies with the structure and subordination.

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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 Consolidated Statement of Financial Position. As a result, changes in value associated with these investments do not impact the Company s Consolidated Statement 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 $21,886 million and $20,806 million of investments in real estate as of June 30, 2014 and December 31, 2013, 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 9.75% (6.14% weighted average) as of June 30, 2014, and 4.15% to 11.00% (6.35% weighted average) as of December 31, 2013, and discount rates, which ranged from 6.00% to 15.00% (7.49% weighted average) as of June 30, 2014, and 6.00% to 15.00% (7.71% weighted average) as of December 31, 2013. Key unobservable inputs to real estate debt valuation include yield to maturity, which ranged from 1.70% to 7.36% (4.17% weighted average) as of June 30, 2014, and 1.13% to 6.85% (4.17% weighted average) as of December 31, 2013, and market spread over base rate, which ranged from 1.55% to 4.83% (2.73% weighted average) as of June 30, 2014, and 1.60% to 4.75% (2.87% weighted average) as of December 31, 2013.

Commercial Mortgage Loans Separate account assets include $910 million and $793 million of commercial mortgage loans as of June 30, 2014 and December 31, 2013, 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 1.10% to 1.91% (1.31% weighted average) as of June 30, 2014, and 1.25% to 1.98% (1.47% weighted average) as of December 31, 2013. 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 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 optional living benefit features of the Company s variable annuity contracts.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, approval of price source changes, price overrides, methodology changes and classification of fair value hierarchy levels. For optional living benefit features of the Company s variable annuity products, the actuarial valuation unit periodically performs baseline testing of 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 optional 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, 2014 Fixed Maturities Available-For-Sale (in millions)						
	U.S. Government	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
Fair Value, beginning of period	$ 0	$ 0	$ 2	$ 1,332	$ 4,055	$ 549	$ 8
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	15	7	1	0
Included in other comprehensive income (loss)	0	0	0	20	3	3	0
Net investment income	0	0	0	3	4	0	0
Purchases	0	0	0	203	676	0	0
Sales	0	0	0	(196)	(45)	(6)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	0	(117)	(536)	(1)	(1)
Foreign currency translation	0	0	0	2	1	0	0
Other(1)	0	0	0	4	(2)	0	0
Transfers into Level 3(2)	0	0	0	54	303	0	0
Transfers out of Level 3(2)	0	0	0	(25)	(333)	(497)	0
Fair Value, end of period	$ 0	$ 0	$ 2	$ 1,295	$ 4,133	$ 49	$ 7
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							

Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ (12)	$ 2	$ 0	$ 0

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended June 30, 2014						
	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	$ 0	$ 121	$ 397	$ 51	$ 2	$ 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	3	0	0	12	(1)
Net investment income	0	0	1	0	0	0	0
Purchases	12	53	90	0	0	9	0
Sales	0	(46)	(9)	0	0	(26)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(1)	(11)	0	0	(8)	0
Foreign currency translation	0	0	0	0	0	3	0
Transfers into Level 3(2)	0	0	18	2	0	0	0
Transfers out of Level 3(2)	0	0	(36)	(51)	0	(1)	0
Fair Value, end of period	$ 12	$ 129	$ 453	$ 2	$ 2	$ 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

	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 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 of 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)	0	0	0
Issuances	0	(225)	0	(480)
Settlements	(387)	0	0	0
Other(1)	57	0	0	0
Transfers into Level 3(2)	3	0	0	0
Transfers out of Level 3(2)	(25)	0	0	0
Fair Value, end of period	$ 23,779	$ (3,400)	$ (5)	$ (4,539)
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ (751)	$ 1	$ 2
Interest credited to policyholders account	$ 501	$ 0	$ 0	$ 0

	Six Months Ended June 30, 2014						
	Fixed Maturities Available-For-Sale						
	U.S. Government	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
	(in millions)						
Fair Value, beginning of period	$ 0	$ 0	$ 1	$ 1,329	$ 3,442	$ 165	$ 8
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	10	10	1	0
Included in other comprehensive income (loss)	0	0	0	67	6	2	0
Net investment income	0	0	0	4	9	0	0
Purchases	0	0	1	309	1,092	496	0
Sales	0	0	0	(283)	(49)	(6)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	0	(149)	(732)	(4)	(1)
Foreign currency translation	0	0	0	6	3	0	0
Other(1)	0	0	0	4	(2)	0	0
Transfers into Level 3(2)	0	0	0	58	979	0	0
Transfers out of Level 3(2)	0	0	0	(60)	(625)	(605)	0
Fair Value, end of period	$ 0	$ 0	$ 2	$ 1,295	$ 4,133	$ 49	$ 7

Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ (18)	$ 2	$ 0	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 30, 2014 Trading Account Assets						
	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed (in millions)	Residential Mortgage-Backed	Equity	All Other Activity
Fair Value, beginning of period	$ 0	$ 115	$ 403	$ 0	$ 2	$ 842	$ 6
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	2	0
Other income	0	6	4	0	0	11	0
Net investment income	0	0	1	0	0	0	0
Purchases	12	63	90	51	0	14	0
Sales	0	(51)	(9)	0	0	(34)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(4)	(24)	0	0	(79)	0
Foreign currency translation	0	0	0	0	0	8	0
Transfers into Level 3(2)	0	0	41	2	0	0	0
Transfers out of Level 3(2)	0	0	(53)	(51)	0	(1)	0
Fair Value, end of period	$ 12	$ 129	$ 453	$ 2	$ 2	$ 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	$ 5	$ 4	$ 0	$ 0	$ 12	$ 0

	Six Months Ended June 30, 2014			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans (in millions)	Other Long-term Investments	Other Assets
Fair Value, beginning of period	$ 304	$ 0	$ 1,396	$ 4
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	4	0	3	0
Other income	0	0	59	0
Included in other comprehensive income (loss)	1	0	0	0
Net investment income	0	0	(2)	0
Purchases	18	0	94	0
Sales	(24)	0	0	0
Issuances	0	0	0	0
Settlements	0	0	(65)	0
Foreign currency translation	1	0	4	0
Other(1)	1	0	(52)	0
Transfers into Level 3(2)	1	0	5	0
Transfers out of Level 3(2)	(7)	0	0	0

Fair Value, end of period	$ 299	$ 0	$ 1,442	$ 4
Unrealized gains (losses) for assets still held (3):				
Included in earnings:				
Realized investment gains (losses), net	$ (2)	$ 0	$ 1	$ 0
Other income	$ 0	$ 0	$ 54	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 30, 2014			
	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes of consolidated VIEs
	(in millions)			
Fair Value, beginning of period	$ 22,603	$ (441)	$ (5)	$ (3,254)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	6	(2,514)	2	(1)
Interest credited to policyholders account balances	1,353	0	0	0
Net investment income	12	0	0	0
Purchases	832	0	0	0
Sales	(328)	0	0	0
Issuances	0	(445)	0	(1,284)
Settlements	(664)	0	0	0
Other(1)	57	0	(2)	0
Transfers into Level 3(2)	3	0	0	0
Transfers out of Level 3(2)	(95)	0	0	0
Fair Value, end of period	$ 23,779	$ (3,400)	$ (5)	$ (4,539)
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ (2,538)	$ 2	$ (1)
Interest credited to policyholders account	$ 872	$ 0	$ 0	$ 0

	Three Months Ended June 30, 2013						
	Fixed Maturities Available-For-Sale						
	U.S. Government	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
	(in millions)						
Fair Value, beginning of period	$ 0	$ 0	$ 1	$ 1,582	$ 3,797	$ 175	$ 10
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	15	6	1	0
Included in other comprehensive income (loss)	0	0	(1)	(26)	(17)	0	0
Net investment income	0	0	0	1	9	149	0
Purchases	0	0	0	82	852	0	0
Sales	0	0	0	(18)	(186)	0	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	0	(211)	(409)	(4)	1
Foreign currency translation	0	0	0	(48)	(43)	(3)	0
Transfers into Level 3(2)	0	0	13	228	0	0	0
Transfers out of Level 3(2)	0	0	0	(222)	0	(75)	0
Fair Value, end of period	$ 0	$ 0	$ 13	$ 1,383	$ 4,009	$ 243	$ 11

Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 1	$ 0	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended June 30, 2013 Trading Account Assets						
	U.S. Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed	Equity	All Other Activity
	(in millions)						
Fair Value, beginning of period	$ 0	$ 102	$ 385	$ 31	$ 2	$ 998	$ 15
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	(1)	(1)
Other income	0	1	7	0	0	17	0
Net investment income	0	0	1	0	0	0	0
Purchases	0	3	118	49	0	(1)	0
Sales	0	(3)	0	0	0	(62)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(12)	(84)	0	0	(12)	0
Foreign currency translation	0	0	(3)	0	0	(55)	0
Transfers into Level 3(2)	0	3	1	0	0	0	0
Transfers out of Level 3(2)	0	(4)	(1)	(26)	0	0	0
Fair Value, end of period	$ 0	$ 90	$ 424	$ 54	$ 2	$ 884	$ 14
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (2)
Other income	$ 0	$ 0	$ 7	$ 1	$ 0	$ 18	$ 0

	Three Months Ended June 30, 2013			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets
	(in millions)			
Fair Value, beginning of period	$ 302	$ 48	$ 1,037	$ 6
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	3	2	2	0
Other income	0	0	49	0
Included in other comprehensive income (loss)	7	0	0	0
Net investment income	0	0	(2)	0
Purchases	10	0	32	0
Sales	(9)	0	41	0
Issuances	0	0	6	0
Settlements	(3)	(29)	(37)	0
Foreign currency translation	(23)	0	20	0
Other(1)	0	0	(66)	0
Transfers into Level 3(2)	1	0	0	0
Transfers out of Level 3(2)	4	0	0	0

Fair Value, end of period	$ 292	$ 21	$ 1,082	$ 6
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 0	$ (3)	$ 0
Other income	$ 0	$ 0	$ 33	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended June 30, 2013			
	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes of consolidated VIEs
	(in millions)			
Fair Value, beginning of period	$ 20,984	$ (1,900)	$ 0	$ (1,768)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	1,744	(4)	4
Interest credited to policyholders account balances	600	0	0	0
Purchases	583	0	0	0
Sales	(257)	0	0	0
Issuances	0	(209)	0	(291)
Settlements	(419)	0	0	0
Other(1)	140	0	(2)	0
Transfers into Level 3(2)	57	0	0	0
Transfers out of Level 3(2)	(16)	0	0	0
Fair Value, end of period	$ 21,672	$ (365)	$ (6)	$ (2,055)
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 1,730	$ 0	$ 5
Interest credited to policyholders account	$ 363	$ 0	$ 0	$ 0

	Six Months Ended June 30, 2013						
	Fixed Maturities Available-For-Sale						
	U.S. Government	U.S. States	Foreign Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed
	(in millions)						
Fair Value, beginning of period	$ 0	$ 0	$ 0	$ 1,630	$ 3,703	$ 124	$ 11
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	6	11	1	0
Included in other comprehensive income (loss)	0	0	(1)	12	(1)	(1)	0
Net investment income	0	0	0	2	21	0	0
Purchases	0	0	4	302	1,383	237	0
Sales	0	0	(1)	(60)	(226)	(3)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	(2)	(397)	(785)	(31)	0
Foreign currency translation	0	0	0	(111)	(105)	(9)	0
Transfers into Level 3(2)	0	0	13	233	8	0	0
Transfers out of Level 3(2)	0	0	0	(234)	0	(75)	0
Fair Value, end of period	$ 0	$ 0	$ 13	$ 1,383	$ 4,009	$ 243	$ 11
Unrealized gains (losses) for assets still held(3):							

Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 5	$ 0	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 30, 2013 Trading Account Assets						
	U.S. Government	Corporate	Asset-Backed	Commercial Mortgage-Backed	Residential Mortgage-Backed	Equity	All Other Activity
	(in millions)						
Fair Value, beginning of period	$ 0	$ 134	$ 430	$ 8	$ 2	$ 1,098	$ 25
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	(1)	(12)
Other income	0	(1)	8	0	0	40	1
Net investment income	0	0	2	0	0	0	0
Purchases	0	3	165	76	0	3	0
Sales	0	(5)	(1)	(1)	0	(103)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(40)	(172)	(1)	0	(13)	0
Foreign currency translation	0	0	(8)	(1)	0	(140)	0
Transfers into Level 3(2)	0	3	2	0	0	0	0
Transfers out of Level 3(2)	0	(4)	(2)	(27)	0	0	0
Fair Value, end of period	$ 0	$ 90	$ 424	$ 54	$ 2	$ 884	$ 14
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (13)
Other income	$ 0	$ (1)	$ 9	$ 1	$ 0	$ 38	$ 1

	Six Months Ended June 30, 2013			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets
	(in millions)			
Fair Value, beginning of period	$ 330	$ 48	$ 1,053	$ 8
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	1	2	1	(2)
Other income	0	0	84	0
Included in other comprehensive income (loss)	43	0	0	0
Net investment income	0	0	(2)	0
Purchases	12	0	59	0
Sales	(23)	0	0	0
Issuances	0	0	6	0
Settlements	(3)	(29)	(98)	0
Foreign currency translation	(51)	0	19	0
Other(1)	(18)	0	(40)	0
Transfers into Level 3(2)	1	0	0	0
Transfers out of Level 3(2)	0	0	0	0

Fair Value, end of period	$ 292	$ 21	$ 1,082	$ 6
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 0	$ (3)	$ (2)
Other income	$ 0	$ 0	$ 82	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 30, 2013			
	Separate Account Assets(4)	Future Policy Benefits	Other Liabilities	Notes of consolidated VIEs
	(in millions)			
Fair Value, beginning of period	$ 21,132	$ (3,348)	$ 0	$ (1,406)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	3,388	(4)	2
Interest credited to policyholders account balances	1,148	0	0	0
Purchases	781	0	0	0
Sales	(317)	0	0	0
Issuances	0	(407)	0	(640)
Settlements	(1,221)	0	0	(11)
Foreign currency translation	0	2	0	0
Other(1)	140	0	(2)	0
Transfers into Level 3(2)	59	0	0	0
Transfers out of Level 3(2)	(50)	0	0	0
Fair Value, end of period	$ 21,672	$ (365)	$ (6)	$ (2,055)
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 3,346	$ (3)	$ 2
Interest credited to policyholders account	$ 681	$ 0	$ 0	$ 0

(1) Other primarily represents reclasses of certain assets between reporting categories. For the three and six months ended June 30, 2014, Separate account assets of $57 million reported in Other represents assets acquired through the Gibraltar BSN Life Berhad acquisition as discussed in Note 3.
(2) Transfers into or out of Level 3 are reported as the value as of the beginning of the quarter in which the transfer occurs.
(3) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.
(4) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Unaudited Interim Consolidated Statement of Financial Position.

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Derivative Fair Value Information

The following tables present the balance of derivative assets and liabilities measured at fair value on a recurring basis, as of the date indicated, by primary underlying. These tables include non-performance risk and exclude embedded derivatives which are typically recorded with the associated host contract. The derivative assets and liabilities shown below are included in Other trading account assets, Other long-term investments or Other liabilities in the tables presented previously in this note, under the headings Assets and Liabilities by Hierarchy Level and Changes in Level 3 Assets and Liabilities.

	As of June 30, 2014				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative assets:					
Interest Rate	$ 2	$ 7,556	$ 9	$ 0	$ 7,567
Currency	0	311	0	0	311
Credit	0	6	0	0	6
Currency/Interest Rate	0	532	0	0	532
Equity	9	420	6	0	435
Commodity	1	0	0	0	1
Netting(1)	0	0	0	(7,714)	(7,714)
Total derivative assets	$ 12	$ 8,825	$ 15	$ (7,714)	$ 1,138
Derivative liabilities:					
Interest Rate	$ 4	$ 6,097	$ 3	$ 0	$ 6,104
Currency	0	147	0	0	147
Credit	0	38	0	0	38
Currency/Interest Rate	0	949	0	0	949
Equity	0	357	0	0	357
Commodity	1	0	0	0	1
Netting(1)	0	0	0	(7,055)	(7,055)
Total derivative liabilities	$ 5	$ 7,588	$ 3	$ (7,055)	$ 541

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	As of December 31, 2013				
	Level 1	Level 2	Level 3 (in millions)	Netting(1)	Total
Derivative assets:					
Interest Rate	$ 10	$ 6,122	$ 8	$ 0	$ 6,140
Currency	0	593	0	0	593
Credit	0	3	0	0	3
Currency/Interest Rate	0	647	0	0	647
Equity	14	376	0	0	390
Commodity	1	0	0	0	1
Netting(1)	0	0	0	(7,241)	(7,241)
Total derivative assets	$ 25	$ 7,741	$ 8	$ (7,241)	$ 533
Derivative liabilities:					
Interest Rate	$ 5	$ 7,597	$ 5	$ 0	$ 7,607
Currency	0	425	0	0	425
Credit	0	49	0	0	49
Currency/Interest Rate	0	857	0	0	857
Equity	1	474	0	0	475
Commodity	0	0	0	0	0
Netting(1)	0	0	0	(7,257)	(7,257)
Total derivative liabilities	$ 6	$ 9,402	$ 5	$ (7,257)	$ 2,156

(1) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Changes in Level 3 derivative assets and liabilities The following tables provide a summary of the changes in fair value of Level 3 derivative assets and liabilities for the three and six months ended June 30, 2014, as well as the portion of gains or losses included in income for the three and six months ended June 30, 2014, attributable to unrealized gains or losses related to those assets and liabilities still held at June 30, 2014.

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Derivative Assets-Equity	Derivative Assets-Interest Rate	Derivative Assets-Equity	Derivative Assets-Interest Rate
	(in millions)			
Fair Value, beginning of period	$ 0	$ 5	$ 0	$ 3
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	1	1	1	3
Other income	0	0	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Issuances	0	0	0	0
Settlements	0	0	0	0
Transfers into Level 3(1)	5	0	5	0
Transfers out of Level 3(1)	0	0	0	0
Fair Value, end of period	$ 6	$ 6	$ 6	$ 6
Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:				
Included in earnings:				
Realized investment gains (losses), net	$ 1	$ 1	$ 1	$ 3
Other income	$ 0	$ 0	$ 0	$ 0

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
	Derivative Assets-Equity	Derivative Assets-Interest Rate	Derivative Assets-Equity	Derivative Assets-Interest Rate
	(in millions)			
Fair Value, beginning of period	$ 9	$ 2	$ 19	$ 3
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	(2)	0	(11)	(1)
Other income	0	0	0	0
Purchases	1	0	0	0
Sales	0	0	0	0
Issuances	0	0	0	0

Settlements	0	0	0	0
Transfers into Level 3(1)	0	0	0	0
Transfers out of Level 3(1)	0	0	0	0
Fair Value, end of period	$ 8	$ 2	$ 8	$ 2
Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:				
Included in earnings:				
Realized investment gains (losses), net	$ (2)	$ 0	$ (11)	$ (1)
Other income	$ 0	$ 0	$ 0	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(1) Transfers into or out of Level 3 are generally reported as the value as of the beginning of the quarter in which the transfer occurs.

Nonrecurring Fair Value Measurements Certain assets and liabilities are measured at fair value on a nonrecurring basis. There were fair value reserve adjustments of $4 million for both the three and six months ended June 30, 2014, on certain commercial mortgage loans. The carrying value of these loans as of June 30, 2014 was $33 million. Similar commercial mortgage loan reserve adjustments resulted in a net gain of $1 million for the three months ended June 30, 2013. Nonrecurring fair value reserve adjustments in 2013 also included a net loss of $1 million for the three months ended March 31, 2013, resulting in no net impact for the six months ended June 30, 2013. The reserve adjustments were based on discounted cash flows utilizing market rates or the fair value of the underlying real estate collateral and the underlying assets were classified as Level 3 in the valuation hierarchy.

There were no intangible asset impairments recorded for the three and six months ended June 30, 2014 and 2013.

For mortgage servicing rights, valuation reserve decreases of $4 million were recorded for the three months ended June 30, 2014 and $8 million for the six months ended June 30, 2014. There were valuation reserve increases of $2 million for the three months ended June 30, 2013 and $1 million for the six months ended June 30, 2013. Mortgage servicing rights are revalued based on internal models and classified as Level 3 in the valuation hierarchy. There were no impairments for either the three or six months ended June 30, 2014, on real estate held for investment. Impairments of $1 million were recorded for both the three and six months ended June 30, 2013. These impairments were based primarily on appraised value and classified as Level 3 in the valuation hierarchy. For certain cost method investments, there were no impairments recorded for the three months ended June 30, 2014. Impairments of $1 million were recorded for the six months ended June 30, 2014. Impairments of $7 million were recorded for the three months ended June 30, 2013 and $10 million for the six months ended June 30, 2013. The methodologies utilized were primarily discounted future cash flow and, where appropriate, valuations provided by the general partners taking into consideration investment-related expenses. These cost method investments are classified as Level 3 in the valuation hierarchy.

Fair Value Option The following table presents information regarding changes in fair values recorded in earnings for commercial mortgage loans, other long-term investments and notes issued by consolidated variable interest entities, where the fair value option has been elected.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Assets:				
Commercial mortgage loans:				
Changes in instrument-specific credit risk	$ 0	$ 0	$ 0	$ 0
Other changes in fair value	$ 0	$ 2	$ 0	$ 2
Other long-term investments:				
Changes in fair value	$ 24	$ 9	$ 42	$ 31
Liabilities:				

Notes issued by consolidated variable interest entities:				
Changes in fair value	$ (3)	$ 0	$ 1	$ (2)

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Changes in fair value are reflected in Realized investment gains (losses), net for commercial mortgage loans and Other income for other long-term investments and notes issued by consolidated variable interest entities. Changes in fair value due to instrument-specific credit risk are estimated based on changes in credit spreads and quality ratings for the period reported.

Interest income on commercial mortgage loans is included in net investment income. The Company recorded $1 million and $2 million of interest income for the three months ended June 30, 2014 and 2013, respectively, and $3 million and $5 million for the six months ended June 30, 2014 and 2013, respectively, on fair value option loans. Interest income on these loans is recorded based on the effective interest rates as determined at the closing of the loan.

The fair values and aggregate contractual principal amounts of commercial mortgage loans, for which the fair value option has been elected, were $204 million and $201 million, respectively, as of June 30, 2014, and $158 million and $154 million, respectively, as of December 31, 2013. As of June 30, 2014, there were no loans in non-accrual status and none of the loans are more than 90 days past due and still accruing.

The fair value of other long-term investments was $944 million as of June 30, 2014 and $873 million as of December 31, 2013.

The fair values and aggregate contractual principal amounts of limited recourse notes issued by consolidated VIEs, for which the fair value option has been elected, were $4,539 million and $4,595 million, respectively, as of June 30, 2014, and $3,254 million and $3,276 million, respectively as of December 31, 2013. Interest expense recorded for these liabilities was $50 million and $23 million for the three months ended June 30, 2014 and 2013, respectively, and $90 million and $40 million for the six months ended June 30, 2014 and 2013, respectively.

Fair Value of Financial Instruments

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. However, in some cases, as described below, the carrying amount equals or approximates fair value.

	June 30, 2014				
	Fair Value				Carrying Amount(1)
	Level 1	Level 2	Level 3	Total	Total
			(in millions)		
Assets:					
Fixed maturities, held-to-maturity	$ 0	$ 2,029	$ 1,435	$ 3,464	$ 3,171
Commercial mortgage and other loans	0	650	44,180	44,830	42,760

Policy loans	0	0	11,966	11,966	11,966
Other long-term investments	0	0	2,403	2,403	2,074
Short-term investments	0	518	0	518	518
Cash and cash equivalents	4,432	640	0	5,072	5,072
Accrued investment income	0	3,162	0	3,162	3,162
Other assets	66	2,320	133	2,519	2,519
Total assets	$ 4,498	$ 9,319	$ 60,117	$ 73,934	$ 71,242

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	June 30, 2014				
	Fair Value				Carrying Amount(1)
	Level 1	Level 2	Level 3 (in millions)	Total	Total
Liabilities:					
Policyholders account balances investment contracts	$ 0	$ 39,590	$ 58,935	$ 98,525	$ 96,689
Securities sold under agreements to repurchase	0	8,786	0	8,786	8,786
Cash collateral for loaned securities	0	4,889	0	4,889	4,889
Short-term debt	0	3,859	0	3,859	3,804
Long-term debt	1,273	19,963	5,057	26,293	23,488
Notes of consolidated VIEs	0	0	27	27	34
Other liabilities	0	5,432	180	5,612	5,612
Separate account liabilities investment contracts	0	83,674	23,497	107,171	107,171
Total liabilities	$ 1,273	$ 166,193	$ 87,696	$ 255,162	$ 250,473

	December 31, 2013				
	Fair Value				Carrying Amount(1)
	Level 1	Level 2	Level 3 (in millions)	Total	Total
Assets:					
Fixed maturities, held-to-maturity	$ 0	$ 2,065	$ 1,488	$ 3,553	$ 3,312
Commercial mortgage and other loans	0	639	42,010	42,649	40,850
Policy loans	0	0	11,766	11,766	11,766
Other long-term investments	0	0	2,470	2,470	2,203
Short-term investments	0	518	0	518	518
Cash and cash equivalents	3,661	796	0	4,457	4,457
Accrued investment income	0	3,089	0	3,089	3,089
Other assets	162	2,147	252	2,561	2,561
Total assets	$ 3,823	$ 9,254	$ 57,986	$ 71,063	$ 68,756
Liabilities:					
Policyholders account balances investment contracts	$ 0	$ 39,347	$ 57,253	$ 96,600	$ 95,476
Securities sold under agreements to repurchase	0	7,898	0	7,898	7,898
Cash collateral for loaned securities	0	5,040	0	5,040	5,040
Short-term debt	0	2,718	0	2,718	2,669
Long-term debt	1,078	19,453	5,038	25,569	23,553
Notes of consolidated VIEs	0	0	39	39	48
Other liabilities	0	5,803	266	6,069	6,069
Separate account liabilities investment contracts	0	82,071	22,163	104,234	104,234
Total liabilities	$ 1,078	$ 162,330	$ 84,759	$ 248,167	$ 244,987

(1) Carrying values presented herein differ from those in the Company s Unaudited Interim Consolidated Statement of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments. Financial statement captions excluded from the above table are not considered financial instruments.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Fixed Maturities, Held-to-Maturity

The fair values of public fixed maturity securities are generally based on prices from third-party pricing services, which are reviewed to validate reasonableness. However, for certain public fixed maturity securities and investments in private placement fixed maturity securities, this information is either not available or not reliable. For these public fixed maturity securities, the fair value is based on indicative broker quotes, if available, or determined using a discounted cash flow model or internally-developed values. For private fixed maturities, fair value is determined using a discounted cash flow model. In determining the fair value of certain fixed maturity securities, the discounted cash flow model may also use unobservable inputs, which reflect the Company s own assumptions about the inputs market participants would use in pricing the security.

Commercial Mortgage and Other Loans

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

Certain commercial mortgage loans are valued incorporating other factors, including the terms of the loans, the principal exit strategies for the loans, prevailing interest rates and credit risk. Other loan valuations are primarily based upon the present value of the expected future cash flows discounted at the appropriate local government bond rate and local market swap rates or credit default swap spreads, plus an appropriate credit spread and liquidity premium. The credit spread and liquidity premium are a significant component of the pricing inputs, and are based upon an internally-developed methodology, which takes into account, among other factors, the credit quality of the loans, the property type of the collateral, the weighted average coupon and the weighted average life of the loans.

Policy Loans

During the fourth quarter of 2013, the Company changed the valuation technique used to fair value policy loans. For the period ended December 31, 2013, the fair value of policy loans was determined by discounting expected cash flows at the current loan coupon rate. As a result, the carrying value of the policy loans approximates the fair value for the year ended December 31, 2013. Prior to this change, the fair value of U.S. insurance policy loans was calculated by discounting expected cash flows based upon current U.S. Treasury rates and historical loan repayment patterns, while Japanese insurance policy loans used the risk-free proxy based on the yen LIBOR.

Other Long-term Investments

Other long-term investments include investments in joint ventures and limited partnerships. The estimated fair values of these cost method investments are generally based on the Company s share of the net asset value (NAV) as provided in the financial statements of the investees. In certain circumstances, management may adjust the NAV by a premium or discount when it has sufficient evidence to support applying such adjustments. No such adjustments were made as of June 30, 2014 and December 31, 2013.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Short-Term Investments, Cash and Cash Equivalents, Accrued Investment Income and Other Assets

The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value. These assets include: certain short-term investments which are not securities, are recorded at amortized cost and include quality loans; cash and cash equivalent instruments; accrued investment income; and other assets that meet the definition of financial instruments, including receivables, such as reinsurance recoverables, unsettled trades, accounts receivable and restricted cash.

Policyholders Account Balances Investment Contracts

Only the portion of policyholders account balances related to products that are investment contracts (those without significant mortality or morbidity risk) are reflected in the table above. For fixed deferred annuities, single premium endowments, payout annuities and other similar contracts without life contingencies, fair values are derived using discounted projected cash flows based on interest rates that are representative of the Company s financial strength ratings, and hence reflect the Company s own NPR. For guaranteed investment contracts, funding agreements, structured settlements without life contingencies and other similar products, fair values are derived using discounted projected cash flows based on interest rates being offered for similar contracts with maturities consistent with those of the contracts being valued. For those balances that can be withdrawn by the customer at any time without prior notice or penalty, the fair value is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. For defined contribution and defined benefit contracts and certain other products, the fair value is the market value of the assets supporting the liabilities.

Securities Sold Under Agreements to Repurchase

The Company receives collateral for selling securities under agreements to repurchase, or pledges collateral under agreements to resell. Repurchase and resale agreements are also generally short-term in nature, and therefore, the carrying amounts of these instruments approximate fair value.

Cash Collateral for Loaned Securities

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

Debt

The fair value of short-term and long-term debt, as well as notes issued by consolidated VIEs, is generally determined by either prices obtained from independent pricing services, which are validated by the Company, or discounted cash flow models. With the exception of the notes issued by consolidated VIEs for which recourse is limited to the assets of the respective VIE and does not extend to the general credit of the Company, the fair values of these instruments consider the Company s own NPR. Discounted cash flow models predominately use market observable inputs such as the borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities. For commercial paper issuances and other debt with a maturity of less than 90 days, the carrying value approximates fair value.

A portion of the senior secured notes issued by Prudential Holdings, LLC (the IHC debt) is insured by a third-party financial guarantee insurance policy. The effect of the third-party credit enhancement is not included in the fair value measurement of the IHC debt and the methodologies used to determine fair value consider the Company s own NPR.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Other Liabilities

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

Separate Account Liabilities Investment Contracts

Only the portion of separate account liabilities related to products that are investments contracts are reflected in the table above. Separate account liabilities are recorded at the amount credited to the contractholder, which reflects the change in fair value of the corresponding separate account assets including contractholder deposits less withdrawals and fees. Therefore, carrying value approximates fair value.

14. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

Interest Rate Contracts

Interest rate swaps, options, and futures are used by the Company to reduce risks from changes in interest rates, manage interest rate exposures arising from mismatches between assets and liabilities (including duration mismatches) and to hedge against changes in the value of assets it owns or anticipates acquiring or selling.

Swaps may be attributed to specific assets or liabilities or may be used on a portfolio basis. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed upon notional principal amount.

The Company also uses swaptions, interest rate caps, and interest rate floors to manage interest rate risk. A swaption is an option to enter into a swap with a forward starting effective date. The Company pays a premium for purchased swaptions and receives a premium for written swaptions. In an interest rate cap, the buyer receives payments at the end of each period in which the interest rate exceeds the agreed strike price.

Similarly, in an interest rate floor, the buyer receives payments at the end of each period in which the interest rate is below the agreed strike price. Swaptions and interest rate caps and floors are included in interest rate options.

In exchange-traded interest rate futures transactions, the Company purchases or sells a specified number of contracts, the values of which are determined by the values of underlying referenced investments, and posts variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded futures with regulated futures commission s merchants who are members of a trading exchange.

Equity Contracts

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Foreign Exchange Contracts

Currency derivatives, including currency futures, options, forwards, and swaps, are used by the Company to reduce risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell, and to hedge the currency risk associated with net investments in foreign operations and anticipated earnings of its foreign operations.

Under currency forwards, the Company agrees with other parties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. As noted above, the Company uses currency forwards to mitigate the impact of changes in currency exchange rates on U.S. dollar equivalent earnings generated by certain of its non-U.S. businesses, primarily its international insurance and investments operations. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. dollar-denominated earnings are expected to be generated. These earnings hedges do not qualify for hedge accounting.

Under currency swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between one currency and another at an exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party.

Credit Contracts

The Company writes credit default swaps for which it receives a premium to insure credit risk. These are used by the Company to enhance the return on the Company s investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments. With these derivatives the Company sells credit protection on an identified name, or an index of names, and in return receives a quarterly premium. This premium or credit spread generally corresponds to the difference between the yield on the referenced names (or an index s referenced names) public fixed maturity cash instruments and swap rates, at the time the agreement is executed. If there is an event of default by the referenced name or one of the referenced names in the index, as defined by the agreement, then the Company is obligated to pay the referenced amount of the contract to the counterparty and receive in return the referenced defaulted security or similar security or (in the case of a credit default index) pay the referenced amount less the auction recovery rate. See credit derivatives written section for further discussion of guarantees. In addition to selling credit protection the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company s investment portfolio.

Other Contracts

TBAs. The Company uses to be announced (TBA) forward contracts to gain exposure to the investment risk and return of mortgage-backed securities. TBA transactions can help the Company enhance the return on its investment portfolio, and can provide a more liquid and cost effective method of achieving these goals than purchasing or selling individual mortgage-backed pools. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at a specified future date. Additionally, pursuant to the Company s mortgage dollar roll program, TBAs or mortgage-backed securities are transferred to counterparties with a corresponding agreement to repurchase them at a future date. These transactions do not qualify as secured borrowings and are accounted for as derivatives.

Loan Commitments. In its mortgage operations, the Company enters into commitments to fund commercial mortgage loans at specified interest rates and other applicable terms within specified periods of time. These

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

commitments are legally binding agreements to extend credit to a counterparty. Loan commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. The determination of the fair value of loan commitments accounted for as derivatives considers various factors including, among others, terms of the related loan, the intended exit strategy for the loans based upon either securitization valuation models or investor purchase commitments, prevailing interest rates, origination income or expense, and the value of service rights. Loan commitments that relate to the origination of mortgage loans that will be held for investment are not accounted for as derivatives and accordingly are not recognized in the Company s financial statements. See Note 15 for a further discussion of these loan commitments.

Embedded Derivatives. The Company sells variable annuity products, which may include guaranteed benefit features that are accounted for as embedded derivatives. These embedded derivatives are marked to market through Realized investment gains (losses), net based on the change in value of the underlying contractual guarantees, which are determined using valuation models. The Company maintains a portfolio of derivative instruments that is intended to economically hedge the risks related to the above products features. The derivatives may include, but are not limited to equity options, total return swaps, interest rate swaptions, caps, floors, and other instruments.

Prior to disposal in the fourth quarter of 2013, the Company invested in fixed maturities that, in addition to a stated coupon, provided a return based upon the results of an underlying portfolio of fixed income investments and related investment activity. The Company accounted for these investments as available-for-sale fixed maturities containing embedded derivatives. Such embedded derivatives are marked to market through Realized investment gains (losses), net, based upon the change in value of the underlying portfolio.

Synthetic Guarantees. The Company sells synthetic guaranteed investment contracts, through both full service and investment-only sales channels, to qualified pension plans. The assets are owned by the trustees of such plans, who invest the assets according to the contract terms agreed to with the Company. The contracts contain a guarantee of a minimum rate of return on participant balances supported by the underlying assets, and a guarantee of liquidity to meet certain participant-initiated withdrawals from the contract. Under U.S. GAAP, these contracts are accounted for as derivatives and recorded at fair value.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The table below provides a summary of the gross notional amount and fair value of derivatives contracts by the primary underlying, excluding embedded derivatives which are recorded with the associated host. Many derivative instruments contain multiple underlyings. The fair value amounts below represent the gross fair value of derivative contracts prior to taking into account the netting effects of master netting agreements, cash collateral held with the same counterparty, and non-performance risk. This netting impact results in total derivative assets of $1,138 million and $533 million as of June 30, 2014 and December 31, 2013, respectively, and total derivative liabilities of $541 million and $2,156 million as of June 30, 2014 and December 31, 2013, respectively, reflected in the Unaudited Interim Consolidated Statement of Financial Position.

	June 30, 2014			December 31, 2013		
		Gross Fair Value			Gross Fair Value	
Primary Underlying/ Instrument Type	**Notional(1)**	**Assets**	**Liabilities**	**Notional(1)(2)**	**Assets(2)**	**Liabilities(2)**
			(in millions)			
Derivatives Designated as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$ 2,069	$ 22	$ (249)	$ 2,556	$ 26	$ (253)
Foreign Currency						
Foreign Currency Forwards	617	1	(22)	534	1	(32)
Currency/Interest Rate						
Foreign Currency Swaps	10,365	165	(637)	9,502	233	(553)
Total Qualifying Hedges	$ 13,051	$ 188	$ (908)	$ 12,592	$ 260	$ (838)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$ 175,080	$ 7,179	$ (5,562)	$ 171,337	$ 5,727	$ (7,051)
Interest Rate Futures	27,506	2	(4)	34,424	10	(5)
Interest Rate Options	24,472	354	(291)	25,308	370	(297)
Interest Rate Forwards	3,210	4	0	1,452	0	(6)
Foreign Currency						
Foreign Currency Forwards	15,373	308	(125)	13,122	587	(393)
Foreign Currency Options	158	3	0	118	5	0
Currency/Interest Rate						
Foreign Currency Swaps	8,653	366	(312)	7,787	414	(304)
Credit						
Credit Default Swaps	1,585	5	(38)	1,890	3	(49)
Equity						
Equity Futures	78	0	0	262	1	(1)
Equity Options	76,100	432	(24)	61,231	388	(12)
Total Return Swaps	13,256	3	(333)	11,554	1	(462)
Commodity						
Commodity Futures	45	1	0	37	1	0
Synthetic GICs(3)	76,887	9	0	78,110	8	0
Total Non-Qualifying Derivatives(4)	$ 422,403	$ 8,666	$ (6,689)	$ 406,632	$ 7,515	$ (8,580)

Total Derivatives(5)	$ 435,454	$ 8,854	$ (7,597)	$ 419,224	$ 7,775	$ (9,418)

(1) Notional amounts are presented on a gross basis and include derivatives used to offset existing positions.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(2) Prior periods have been revised to include the gross notional amount and fair value of derivative contracts used in a broker-dealer capacity.
(3) The gross notional amount as of December 31, 2013 has been revised from $60,758 million to $78,110 million to correct the previously reported amount. This amount does not impact the Unaudited Interim Consolidated Financial Statements.
(4) Based on notional amounts, most of the Company s derivatives do not qualify for hedge accounting as follows: i) derivatives that economically hedge embedded derivatives do not qualify for hedge accounting because changes in the fair value of the embedded derivatives are already recorded in net income, ii) derivatives that are utilized as macro hedges of the Company s exposure to various risks typically do not qualify for hedge accounting because they do not meet the criteria required under portfolio hedge accounting rules, and iii) synthetic guaranteed investment contracts (GICs), which are product standalone derivatives do not qualify as hedging instruments under hedge accounting rules.
(5) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a net liability of $3,377 million as of June 30, 2014 and a net liability of $430 million as of December 31, 2013, included in Future policy benefits and Fixed maturities, available-for-sale.

Offsetting Assets and Liabilities

The following table presents recognized derivative instruments (including bifurcated embedded derivatives), and repurchase and reverse repurchase agreements that are offset in the balance sheet, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the balance sheet.

	June 30, 2014				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position (in millions)	Financial Instruments/ Collateral	Net Amount
Offsetting of Financial Assets:					
Derivatives	$ 8,780	$ (7,714)	$ 1,066	$ (870)	$ 196
Securities purchased under agreement to resell	644	0	644	(644)	0
Total Assets	$ 9,424	$ (7,714)	$ 1,710	$ (1,514)	$ 196
Offsetting of Financial Liabilities:					
Derivatives	$ 7,585	$ (7,055)	$ 530	$ (535)	$ (5)
Securities sold under agreement to repurchase	8,786	0	8,786	(8,786)	0
Total Liabilities	$ 16,371	$ (7,055)	$ 9,316	$ (9,321)	$ (5)

	December 31, 2013				
	Gross Amounts of	Gross Amounts Offset in the	Net Amounts Presented	Financial Instruments/ Collateral	Net Amount

	Recognized Financial Instruments	Statement of Financial Position	in the Statement of Financial Position (in millions)		
Offsetting of Financial Assets:					
Derivatives	$ 7,721	$ (7,241)	$ 480	$ (535)	$ (55)
Securities purchased under agreement to resell	656	0	656	(656)	0
Total Assets	$ 8,377	$ (7,241)	$ 1,136	$ (1,191)	$ (55)
Offsetting of Financial Liabilities:					
Derivatives	$ 9,408	$ (7,257)	$ 2,151	$ (1,999)	$ 152
Securities sold under agreement to repurchase	7,898	0	7,898	(7,898)	0
Total Liabilities	$ 17,306	$ (7,257)	$ 10,049	$ (9,897)	$ 152

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above see Counterparty Credit Risk below. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company s accounting policy for securities repurchase and resale agreements, see Note 2 to the Company s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

Cash Flow, Fair Value and Net Investment Hedges

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

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

	Three Months Ended June 30, 2014					
	Realized Investment Gains/ (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ (3)	$ (15)	$ 0	$ 0	$ 0	$ 0
Currency	4	0	0	0	0	0
Total fair value hedges	1	(15)	0	0	0	0
Cash flow hedges						
Interest Rate	0	0	0	(6)	0	2
Currency/Interest Rate	0	1	(18)	0	0	(61)
Total cash flow hedges	0	1	(18)	(6)	0	(59)

Net investment hedges						
Currency(2)	0	0	0	0	0	(1)
Currency/Interest Rate	0	0	0	0	0	(11)
Total net investment hedges	0	0	0	0	0	(12)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	1,470	0	0	0	0	0
Currency	(42)	0	0	0	0	0
Currency/Interest Rate	15	0	0	0	0	0
Credit	(2)	0	0	0	0	0
Equity	(687)	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	(696)	0	0	0	0	0
Total non-qualifying hedges	58	0	0	0	0	0
Total	$ 59	$ (14)	$ (18)	$ (6)	$ 0	$ (71)

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 30, 2014					
	Realized Investment Gains/ (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ (8)	$ (31)	$ 0	$ 0	$ 2	$ 0
Currency	6	0	0	0	0	0
Total fair value hedges	(2)	(31)	0	0	2	0
Cash flow hedges						
Interest Rate	0	0	0	(11)	0	5
Currency/Interest Rate	0	3	(22)	0	0	(92)
Total cash flow hedges	0	3	(22)	(11)	0	(87)
Net investment hedges						
Currency(2)	0	0	0	0	0	(1)
Currency/Interest Rate	0	0	0	0	0	(29)
Total net investment hedges	0	0	0	0	0	(30)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	3379	0	0	0	0	0
Currency	(48)	0	0	0	0	0
Currency/Interest Rate	3	0	(1)	0	0	0
Credit	(1)	0	0	0	0	0
Equity	(980)	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	(2,442)	0	0	0	0	0
Total non-qualifying hedges	(89)	0	(1)	0	0	0
Total	$ (91)	$ (28)	$ (23)	$ (11)	$ 2	$ (117)

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended June 30, 2013					
	Realized Investment Gains/ (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
			(in millions)			
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ 50	$ (19)	$ 0	$ 0	$ 5	$ 0
Currency	(23)	0	0	0	0	0
Total fair value hedges	27	(19)	0	0	5	0
Cash flow hedges						
Interest Rate	0	0	0	(6)	0	11
Currency/Interest Rate	0	0	(20)	0	0	(31)
Total cash flow hedges	0	0	(20)	(6)	0	(20)
Net investment hedges						
Currency(2)	0	0	0	0	0	2
Currency/Interest Rate	0	0	0	0	0	51
Total net investment hedges	0	0	0	0	0	53
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(2,473)	0	0	0	0	0
Currency	(319)	0	0	0	0	0
Currency/Interest Rate	55	0	0	0	0	0
Credit	(8)	0	0	0	0	0
Equity	(364)	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	1,691	0	0	0	0	0
Total non-qualifying hedges	(1,418)	0	0	0	0	0
Total	$ (1,391)	$ (19)	$ (20)	$ (6)	$ 5	$ 33

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Six Months Ended June 30, 2013					
	Realized Investment Gains/ (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	Accumulated Other Comprehensive Income(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	$ 72	$ (39)	$ 0	$ 0	$ 12	$ 0
Currency	(47)	0	0	0	0	0
Total fair value hedges	25	(39)	0	0	12	0
Cash flow hedges						
Interest Rate	0	0	0	(11)	0	16
Currency/Interest Rate	0	(1)	(35)	0	0	143
Total cash flow hedges	0	(1)	(35)	(11)	0	159
Net investment hedges						
Currency(2)	0	0	0	0	0	6
Currency/Interest Rate	0	0	0	0	0	157
Total net investment hedges	0	0	0	0	0	163
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(3,531)	0	0	0	0	0
Currency	(576)	0	0	0	0	0
Currency/Interest Rate	298	0	1	0	0	0
Credit	(10)	0	0	0	0	0
Equity	(1,809)	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	3,348	0	0	0	0	0
Total non-qualifying hedges	(2,280)	0	1	0	0	0
Total	$ (2,255)	$ (40)	$ (34)	$ (11)	$ 12	$ 322

(1) Amounts deferred in Accumulated other comprehensive income (loss).
(2) Relates to the sale of equity method investments.

For the three and six months ended June 30, 2014, the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company s results of operations and there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	(in millions)
Balance, December 31, 2013	$ (446)
Net deferred gains/(losses) on cash flow hedges from January 1 to June 30, 2014	(109)
Amount reclassified into current period earnings	22
Balance, June 30, 2014	$ (533)

Using June 30, 2014 values, it is anticipated that a pre-tax loss of approximately $14 million will be reclassified from Accumulated other comprehensive income (loss) to earnings during the subsequent twelve months ending June 30, 2015, offset by amounts pertaining to the hedged items. As of June 30, 2014, the Company does not have any qualifying cash flow hedges of forecasted transactions other than those related to the variability of the payment or receipt of interest or foreign currency amounts on existing financial instruments. The maximum length of time for which these variable cash flows are hedged is 30 years. Income amounts deferred in Accumulated other comprehensive income (loss) as a result of cash flow hedges are included in Net unrealized investment gains (losses) in the Consolidated Statements of Equity.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment account within Accumulated other comprehensive income (loss) was $325 million and $356 million as of June 30, 2014 and December 31, 2013.

Credit Derivatives

Credit derivatives where the Company has written credit protection have $5 million of outstanding notional amounts, reported at fair value as an asset of less than $1 million, as of both June 30, 2014 and December 31, 2013. These credit derivatives have an NAIC designation of 2.

The Company s maximum amount at risk under these credit derivatives assumes the value of the underlying referenced securities become worthless. These credit derivatives have maturities of less than 2 years. This excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance.

The Company also entered into a credit derivative that will require the Company to make certain payments in the event of deterioration in the value of the surplus notes issued by a subsidiary of Prudential Insurance. The notional amount of this credit derivative is $500 million and the fair value as of June 30, 2014 and December 31, 2013 was an asset of $4 million and a liability of $4 million, respectively. No collateral was pledged in either period.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company s investment portfolio. As of June 30, 2014 and December 31, 2013, the Company had $1,075 million and $1,399 million of outstanding notional amounts, respectively, reported at fair value as a liability of $36 million and $42 million, respectively.

Counterparty Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions. The Company manages credit risk by entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties, and by obtaining collateral where appropriate. Additionally, limits are set on single party credit exposures which are subject to periodic management review.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The credit exposure of the Company s OTC derivative transactions is represented by the contracts with a positive fair value (market value) at the reporting date. To reduce credit exposures, the Company seeks to (i) enter into OTC derivative transactions pursuant to master agreements that provide for a netting of payments and receipts with a single counterparty, and (ii) enter into agreements that allow the use of credit support annexes, which are bilateral rating-sensitive agreements that require collateral postings at established threshold levels. Cleared derivatives are transactions between the Company and a counterparty where the transactions are cleared through a clearinghouse, such that each derivative counterparty is only exposed to the default of the clearinghouse. These cleared transactions require initial and daily variation margin collateral postings and include certain interest rate swaps and credit default swaps entered into on or after June 10, 2013, related to guidelines under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Company also enters into exchange-traded futures and certain options transactions through regulated exchanges and these transactions are settled on a daily basis, thereby reducing credit risk exposure in the event of non-performance by counterparties to such financial instruments.

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

Certain of the Company s derivative agreements with some of its counterparties contain credit-rating related triggers. If the Company s credit rating were to fall below a certain level, the counterparties to the derivative instruments could request termination at the then fair value of the derivative or demand immediate full collateralization on derivative instruments in net liability positions. If a downgrade occurred and the derivative positions were terminated, the Company anticipates it would be able to replace the derivative positions with other counterparties in the normal course of business. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position were $207 million as of June 30, 2014. In the normal course of business the Company has posted collateral related to these instruments of $167 million as of June 30, 2014. If the credit-risk-related contingent features underlying these agreements had been triggered on June 30, 2014, the Company estimates that it would be required to post a maximum of $25 million of additional collateral to its counterparties.

15. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS

Commitments and Guarantees

Commercial Mortgage Loan Commitments

	June 30, 2014	December 31, 2013
	(in millions)	
Total outstanding mortgage loan commitments	$ 4,085	$ 2,365

Portion of commitment where prearrangement to sell to investor exists	$ 1,707	$ 587

In connection with the Company s commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. In certain of these transactions, the Company pre-arranges that it will sell the loan to an investor, including to government sponsored entities as discussed below, after the Company funds the loan.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	June 30, 2014	December 31, 2013
	(in millions)	
Expected to be funded from the general account and other operations outside the separate accounts(1)	$ 4,401	$ 5,461
Expected to be funded from separate accounts	$ 225	$ 274

(1) Includes a remaining commitment of $243 million and $256 million at June 30, 2014 and December 31, 2013, respectively, related to the Company s agreement to co-invest with the Fosun Group (Fosun) in a private equity fund, managed by Fosun, for the Chinese marketplace.

The Company has other commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under the Company s control, including those at the discretion of the Company s counterparties. The Company anticipates a portion of these commitments will ultimately be funded from its separate accounts.

Guarantees of Investee Debt

	June 30, 2014	December 31, 2013
	(in millions)	
Total guarantees of debt issued by entities in which the separate accounts have invested(1)	$ 1,229	$ 1,205
Amount of above guarantee that is limited to separate account assets(1)	$ 1,229	$ 1,205
Accrued liability associated with guarantee	$ 0	$ 0

(1) Amounts as of December 31, 2013 have been revised from $2,510 million to $1,205 million to correct the previously reported amounts. In addition, the amounts previously reported as of March 31, 2014 have been revised from $2,159 million to $1,197 million. These amounts do not impact the consolidated financial statements.

A number of guarantees provided by the Company relate to real estate investments held in its separate accounts, in which entities that the separate account has invested in have borrowed funds, and the Company has guaranteed their obligations. The Company provides these guarantees to assist these entities in obtaining financing. The Company s maximum potential exposure under these guarantees is mostly limited to the assets of the separate account. The exposure that is not limited to the separate account assets relates mostly to guarantees limited to fraud, criminal activity or other bad acts. These guarantees generally expire at various times over the next twelve years. At June 30, 2014, the Company s assessment is that it is unlikely payments will be required. Any payments that may become required under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the underlying collateral, or would provide rights to obtain the underlying collateral.

Indemnification of Securities Lending Transactions

	June 30, 2014	December 31, 2013
	(in millions)	
Indemnification provided to mutual fund and separate account clients for securities lending	$ 16,072	$ 15,598
Fair value of related collateral associated with above indemnifications	$ 16,435	$ 15,965
Accrued liability associated with guarantee	$ 0	$ 0

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

In the normal course of business, the Company may facilitate securities lending transactions on behalf of mutual funds and separate accounts for which the Company is the investment advisor and/or the asset manager. In certain of these arrangements, the Company has provided an indemnification to the mutual funds or separate accounts to hold them harmless against losses caused by counterparty (i.e., borrower) defaults associated with the securities lending activity facilitated by the Company. Collateral is provided by the counterparty to the mutual fund or separate account at the inception of the loan equal to or greater than 102% of the fair value of the loaned securities and the collateral is maintained daily at 102% or greater of the fair value of the loaned securities. The Company is only at risk if the counterparty to the securities lending transaction defaults and the value of the collateral held is less than the value of the securities loaned to such counterparty. The Company believes the possibility of any payments under these indemnities is remote.

Credit Derivatives Written

As discussed further in Note 14, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security.

Guarantees of Asset Values

	June 30, 2014	December 31, 2013
	(in millions)	
Guaranteed value of third parties assets	$ 76,887	$ 78,110
Fair value of collateral supporting these assets	$ 78,910	$ 79,458
Asset associated with guarantee, carried at fair value	$ 9	$ 8

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives and carried at fair value. The collateral supporting these guarantees is not reflected on the Company s balance sheet.

Guarantees of Credit Enhancements

	June 30, 2014	December 31, 2013
	(in millions)	
Guarantees of credit enhancements of debt instruments associated with commercial real estate assets	$ 123	$ 156
Fair value of properties and associated tax credits that secure the guarantee	$ 147	$ 220
Accrued liability associated with guarantee	$ 0	$ 0

The Company arranges for credit enhancements of certain debt instruments that provide financing primarily for affordable multi-family real estate assets, including certain tax-exempt bond financings. The credit enhancements provide assurances to the debt holders as to the timely payment of amounts due under the debt instruments. The remaining contractual maturities for these guarantees are up to fifteen years. The Company s obligations to reimburse required credit enhancement payments are secured by mortgages on the related real estate. The Company receives certain ongoing fees for providing these enhancement arrangements and anticipates the extinguishment of its obligation under these enhancements prior to maturity through the aggregation and transfer of its positions to a substitute enhancement provider.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Indemnification of Serviced Mortgage Loans

	June 30, 2014	December 31, 2013
	(in millions)	
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	$ 1,146	$ 1,173
First-loss exposure portion of above	$ 359	$ 371
Accrued liability associated with guarantees	$ 14	$ 17

As part of the commercial mortgage activities of the Company s Asset Management segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and makes payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company s percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company services $8,630 million of mortgages subject to these loss-sharing arrangements as of June 30, 2014, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of June 30, 2014, these mortgages had an average debt service coverage ratio of 2.05 times and an average loan-to-value ratio of 60%. The Company s total share of losses related to indemnifications that were settled was $1.0 million and $0.4 million, for the six months ended June 30, 2014 and 2013, respectively.

Other Guarantees

	June 30, 2014	December 31, 2013
	(in millions)	
Other guarantees where amount can be determined	$ 394	$ 404
Accrued liability for other guarantees and indemnifications	$ 6	$ 7

The Company is also subject to other financial guarantees and indemnity arrangements. The Company has provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Included above are $332 million and $323 million as of June 30, 2014 and December 31, 2013, respectively, of yield maintenance guarantees related to certain investments the Company sold. The Company does not expect to make any payments on these guarantees and is not carrying any liabilities associated with these guarantees.

Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. The accrued liabilities identified above do not include retained liabilities associated with sold businesses.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Contingent Liabilities

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

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

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

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of the Company s businesses and operations that are specific to it and proceedings that are typical of the businesses in which it operates, including in both cases businesses that have been either divested or placed in wind-down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established but the matter, if material, is disclosed, including matters discussed below. The Company estimates that as of June 30, 2014, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is not material (i.e. less than $250 million). Any estimate is not an indication of expected loss, if any, or the Company s maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

Individual Annuities, Individual Life and Group Insurance

In January 2013, a qui tam action on behalf of the State of Florida, *Total Asset Recovery Services v. Met Life Inc., et al., Manulife Financial Corporation, et. al., Prudential Financial, Inc., The Prudential Insurance Company of America, and Prudential Insurance Agency, LLC*. filed in the Circuit Court of Leon County, Florida, was served on the Company. The complaint alleges that the Company failed to escheat life insurance proceeds to

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

the State of Florida in violation of the Florida False Claims Act and seeks injunctive relief, compensatory damages, civil penalties, treble damages, prejudgment interest, attorneys fees and costs. In March 2013, the Company filed a motion to dismiss the complaint. In August 2013, the court dismissed the complaint with prejudice. In September 2013, plaintiff filed an appeal with Florida s Circuit Court of the Second Judicial Circuit in Leon County.

In September 2012, the State of West Virginia, through its State Treasurer, filed a lawsuit, *State of West Virginia ex. Rel. John D. Perdue v. Prudential Insurance Company of America*, in the Circuit Court of Putnam County, West Virginia. The complaint alleges violations of the West Virginia Uniform Unclaimed Property Fund Act by failing to properly identify and report all unclaimed insurance policy proceeds which should either be paid to beneficiaries or escheated to West Virginia. The complaint seeks to examine the records of Prudential Insurance to determine compliance with the West Virginia Uniform Unclaimed Property Fund Act, and to assess penalties and costs in an undetermined amount. In October 2012, the State of West Virginia commenced a second action, *State of West Virginia ex. Rel. John D. Perdue v. Pruco Life Insurance Company* making the same allegations stated in the action against Prudential Insurance. In April 2013, the Company filed motions to dismiss the complaints in both of the West Virginia actions. In December 2013, the Court granted the Company s motions and dismissed the complaints with prejudice. In January, 2014, the State of West Virginia appealed the decisions.

In January 2012, a Global Resolution Agreement entered into by the Company and a third party auditor became effective upon its acceptance by the unclaimed property departments of 20 states and jurisdictions. Under the terms of the Global Resolution Agreement, the third party auditor acting on behalf of the signatory states will compare expanded matching criteria to the Social Security Master Death File (SSMDF) to identify deceased insureds and contractholders where a valid claim has not been made. In February 2012, a Regulatory Settlement Agreement entered into by the Company to resolve a multi-state market conduct examination regarding its adherence to state claim settlement practices became effective upon its acceptance by the insurance departments of 20 states and jurisdictions. The Regulatory Settlement Agreement applies prospectively and requires the Company to adopt and implement additional procedures comparing its records to the SSMDF to identify unclaimed death benefits and prescribes procedures for identifying and locating beneficiaries once deaths are identified. Substantially all other jurisdictions that are not signatories to the Global Resolution Agreement or the Regulatory Settlement Agreement have entered into similar agreements with the Company.

The Company is one of several companies subpoenaed by the New York Attorney General regarding its unclaimed property procedures. Additionally, the New York State Department of Financial Services (NYDFS) has requested that 172 life insurers (including the Company) provide data to the NYDFS regarding use of the SSMDF. The New York Office of Unclaimed Funds is conducting an audit of the Company s compliance with New York s unclaimed property laws. In February 2012, the Massachusetts Office of the Attorney General requested information regarding the Company s unclaimed property procedures. In December 2013, this matter was closed without prejudice.

From July 2010 to December 2010, four purported nationwide class actions were filed challenging the use of retained asset accounts to settle death benefit claims of beneficiaries of a group life insurance contract owned by the United States Department of Veterans Affairs that covers the lives of members and veterans of the U.S. armed forces. In 2011, the cases were consolidated in the United States District Court for the District of Massachusetts by the Judicial Panel for Multi-District Litigation as *In re Prudential Insurance Company of America SGLI/VGLI Contract Litigation*. The consolidated complaint alleges that the use of the retained assets accounts that earn interest and are available to be withdrawn by the beneficiary, in whole or in part, at any time, to settle death benefit claims is in violation of federal law, and asserts claims of breach of contract, breaches of fiduciary duty and the duty of good faith and fair dealing, fraud and unjust enrichment and seeks compensatory

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

and punitive damages, disgorgement of profits, equitable relief and pre and post-judgment interest. In March 2011, the motion to dismiss was denied. In January 2012, plaintiffs filed a motion to certify the class. In August 2012, the court denied plaintiffs class certification motion without prejudice pending the filing of summary judgment motions on the issue of whether plaintiffs sustained an actual injury. In October 2012, the parties filed motions for summary judgment. In November 2013, the Court issued a Memorandum and Order stating that the named plaintiffs: (1) did not suffer a cognizable legal injury; (2) are not entitled to any damages based on allegations of delay in payment of benefits; and (3) are not entitled to disgorgement of profits as a remedy. The Court ordered further briefing on whether nominal damages should be awarded and whether any equitable relief should be granted. In February 2014, the parties filed briefs on the issues addressed in the Court s order. In August 2014, the Court granted preliminary approval of a proposed settlement of this matter as a class action settlement. If final approval is obtained from the Court, the anticipated class action settlement will be within the amount reserved for this matter.

In September 2010, *Huffman v. The Prudential Insurance Company*, a purported nationwide class action brought on behalf of beneficiaries of group life insurance contracts owned by ERISA-governed employee welfare benefit plans was filed in the United States District Court for the Eastern District of Pennsylvania, challenging the use of retained asset accounts in employee welfare benefit plans to settle death benefit claims as a violation of ERISA and seeking injunctive relief and disgorgement of profits. In July 2011, the Company s motion for judgment on the pleadings was denied. In February 2012, plaintiffs filed a motion to certify the class. In April 2012, the Court stayed the case pending the outcome of a case involving another insurer that is before the Third Circuit Court of Appeals.

From November 2002 to March 2005, eleven separate complaints were filed against the Company and the law firm of Leeds Morelli & Brown in New Jersey state court and in the New Jersey Superior Court, Essex County as *Lederman v. Prudential Financial, Inc., et al*. The complaints allege that an alternative dispute resolution agreement entered into among Prudential Insurance, over 235 claimants who are current and former Prudential Insurance employees, and Leeds Morelli & Brown (the law firm representing the claimants) was illegal and that Prudential Insurance conspired with Leeds Morelli & Brown to commit fraud, malpractice, breach of contract, and violate racketeering laws by advancing legal fees to the law firm with the purpose of limiting Prudential s liability to the claimants. In February 2010, the New Jersey Supreme Court assigned the cases for centralized case management to the Superior Court, Bergen County. The Company participated in a court-ordered mediation that resulted in a settlement involving 193 of the remaining 235 plaintiffs. The amounts paid to the 193 plaintiffs were within existing reserves for this matter. In December 2013, the Company participated in court-ordered mediation that resulted in a December 2013 settlement involving 40 of the remaining 42 plaintiffs with litigation against the Company, including plaintiffs who had not yet appealed the dismissal of their claims. The amounts paid to the 40 plaintiffs were within existing reserves for this matter. In July 2014, the Court granted the Company s summary judgment motion dismissing with prejudice the complaint of one of the two remaining plaintiffs asserting claims against the Company.

Other Matters

In October 2012, a shareholder derivative lawsuit, *Stephen Silverman, Derivatively on Behalf of Prudential Financial, Inc. v. John R. Strangfeld, et. al.*, was filed in the United States District Court for the District of New Jersey, alleging breaches of fiduciary duties, waste of corporate assets and unjust enrichment by certain senior officers and directors. The complaint names as defendants the Company s Chief Executive Officer, the Chief Financial Officer, the Principal Accounting Officer, certain members of the Company s Board of Directors and a former Director. The complaint alleges that the defendants made false and misleading statements regarding the Company s current and future financial condition based on, among other things, the alleged failure to disclose:

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(i) potential liability for benefits that should either have been paid to policyholders or their beneficiaries, or escheated to applicable states; and (ii) the extent of the Company s exposure for alleged state and federal law violations concerning the settlement of claims and the escheatment of unclaimed property. The complaint seeks an undetermined amount of damages, attorneys fees and costs, and equitable relief including a direction for the Company to reform and to improve its corporate governance and internal procedures to comply with applicable laws.

In October 2012, the Board of Directors received a shareholder demand letter (the Demand), containing allegations of wrongdoing similar to those alleged in the *Silverman* complaint. The Demand alleges that the Company s Senior Management: (i) breached their fiduciary duties of loyalty and good faith in connection with the management, operation and oversight of the Company s business; (ii) breached their fiduciary duty of good faith to establish and maintain adequate internal controls; and (iii) breached their fiduciary duties by disseminating false, misleading and/or incomplete information, all in connection with the Company s alleged failure to use the SSDMF and to pay beneficiaries and escheat funds to states. The Demand requests that the Board of Directors: (a) undertake an independent internal investigation into Senior Management s violations of New Jersey and/or federal law; and (b) commence a civil action against each member of Senior Management to recover for the benefit of the Company the amount of damages sustained by the Company as a result of the alleged breaches described above. In response to the Demand, the Board of Directors formed a Special Litigation Committee that has retained an outside law firm to investigate the Demand s allegations. In September 2013, before the conclusion of the Special Litigation Committee s investigation, the shareholder who submitted the Demand filed a shareholder derivative lawsuit, *Paul Memo, Derivatively on Behalf of Prudential Financial, Inc. v. John R. Strangfeld, Jr. et. al.*, in New Jersey Superior Court, Essex County. The complaint (the Memo complaint) names as defendants the Company s Chief Executive Officer, the Vice Chairman, a former Chief Financial Officer, the Principal Accounting Officer, certain members of the Company s Board of Directors and a former Director. The complaint repeats the allegations in the Demand and seeks an undetermined amount of damages, attorneys fees and costs, and equitable relief including a direction for the Company to reform and to improve its corporate governance and internal procedures to comply with applicable laws. In March 2014, the Special Litigation Committee completed its investigation into the Demand s allegations and concluded that it is neither appropriate nor in the best interests of the Company s shareholders to pursue any litigation arising from allegations contained in the Demand or in the Memo complaint, and that the Company should seek dismissal of the Memo complaint. In July 2014, the Company filed a motion to dismiss the complaint.

In August 2012, a purported class action lawsuit, *City of Sterling Heights General Employees Retirement System v. Prudential Financial, Inc., et al.*, was filed in the United States District Court for the District of New Jersey, alleging violations of federal securities law. The complaint names as defendants the Company s Chief Executive Officer, the Chief Financial Officer, the Principal Accounting Officer and certain members of the Company s Board of Directors. The complaint alleges that knowingly false and misleading statements were made regarding the Company s current and future financial condition based on, among other things, the alleged failure to disclose: (i) potential liability for benefits that should either have been paid to policyholders or their beneficiaries, or escheated to applicable states; and (ii) the extent of the Company s exposure for alleged state and federal law violations concerning the settlement of claims and the escheatment of unclaimed property. The complaint seeks an undetermined amount of damages, interest, attorneys fees and costs. In May 2013, the complaint was amended to add three additional putative institutional investors as lead plaintiffs: National Shopmen Pension Fund, The Heavy & General Laborers Locals 472 & 172 Pension & Annuity Funds, and Roofers Local No. 149 Pension Fund. In June 2013, the Company moved to dismiss the amended complaint. In February 2014, the Court denied the Company s motion to dismiss. In July 2014, plaintiffs filed a motion to certify a class comprised of investors who purchased shares of the Company s Common Stock between May 5, 2010 and November 4, 2011.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

In October 2006, a purported class action lawsuit, *Bouder v. Prudential Financial, Inc. and Prudential Insurance Company of America*, was filed in the United States District Court for the District of New Jersey, claiming that Prudential failed to pay overtime to insurance agents in violation of federal and Pennsylvania law, and that improper deductions were made from these agents wages in violation of state law. The complaint sought back overtime pay and statutory damages, recovery of improper deductions, interest, and attorneys fees. In March 2008, the court conditionally certified a nationwide class on the federal overtime claim. Separately, in March 2008, a purported nationwide class action lawsuit was filed in the United States District Court for the Southern District of California, *Wang v. Prudential Financial, Inc. and Prudential Insurance*, claiming that the Company failed to pay its agents overtime and provide other benefits in violation of California and federal law and seeking compensatory and punitive damages in unspecified amounts. In September 2008, *Wang* was transferred to the United States District Court for the District of New Jersey and consolidated with the *Bouder* matter. Subsequent amendments to the complaint resulted in additional allegations involving purported violations of an additional nine states overtime and wage payment laws. In February 2010, Prudential moved to decertify the federal overtime class that had been conditionally certified in March 2008 and moved for summary judgment on the federal overtime claims of the named plaintiffs. In July 2010, plaintiffs filed a motion for class certification of the state law claims. In August 2010, the district court granted Prudential s motion for summary judgment, dismissing the federal overtime claims. In January 2013, the Court denied plaintiffs motion for class certification in its entirety. In July 2013, the Court granted plaintiffs motion for reconsideration, permitting plaintiffs to file a motion to certify a class of employee insurance agents seeking recovery under state wage and hour laws. In September 2013, plaintiffs filed a renewed motion for class certification.

Since April 2012, the Company has filed ten actions seeking to recover damages attributable to investments in residential mortgage-backed securities (RMBS). Eight actions were filed in New Jersey state court, captioned *The Prudential Insurance Company of America, et al. v. JP Morgan Chase, et al.; The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.; The Prudential Insurance Company of America, et al. v. Nomura Securities International, Inc., et al.; The Prudential Insurance Company of America, et al. v. Barclays Bank PLC, et al.; The Prudential Insurance Company of America, et al. v. Goldman Sachs & Company, et al.; The Prudential Insurance Company of America, et al. v. RBS Financial Products, Inc., et al.; The Prudential Insurance Company of America, et al. v. Countrywide Financial Corp., et al.;* and *The Prudential Insurance Company of America, et al. v. UBS Securities LLC., et al*. Additionally, two actions were filed in the United States District Court for the District of New Jersey: *The Prudential Insurance Company of America v. Credit Suisse Securities (USA) LLC, et al.* and *The Prudential Insurance Company of America v. Bank of America National Association and Merrill Lynch & Co., Inc., et al.* Among other allegations stemming from the defendants origination, underwriting and sales of RMBS, the complaints assert claims of common law fraud, negligent misrepresentation, breaches of the New Jersey Civil RICO statute and, in some lawsuits, federal securities claims. The complaints seek unspecified damages.

Seven of the defendants (*J.P. Morgan, Barclays, Nomura, RBS, Goldman Sachs, Countrywide, and UBS*) removed the lawsuits from New Jersey state court to the United States District Court for the District of New Jersey. The *Countrywide* defendants also made an application to the Judicial Panel on Multi-District Litigation to transfer that case to the United States District Court for the Central District of California. In August 2013, that application was granted. Except for the *Nomura* and *Goldman Sachs* actions, the Company filed motions to remand the lawsuits to New Jersey state court. The *J.P. Morgan, Barclays, RBS and UBS* lawsuits were subsequently remanded to New Jersey state court.

Each of the *Goldman Sachs, Morgan Stanley, Nomura, Credit Suisse, Barclays, Bank of America/Merrill Lynch, J.P. Morgan, RBS, UBS and Countrywide* defendants filed motions to dismiss the complaints against them. The motions to dismiss filed by *Goldman Sachs, J.P. Morgan, Morgan Stanley*, and *Credit Suisse* have been denied in their entirety. In December 2013, the lawsuit against *Goldman Sachs* was settled. In March 2014,

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

the motion to dismiss filed by *Countrywide* was granted in part, dismissing the federal securities, successor-liability, fraudulent transfer, and New Jersey RICO claims, and the court, sua sponte, remanded the remaining claims to New Jersey state court for further consideration. In April 2014, the Company filed an appeal with the United States Court of Appeals for the Ninth Circuit, challenging the court s March 2014 order granting, in part, Countrywide s motion to dismiss. In June 2014, *Countrywide* filed a motion to dismiss the remaining claims pending against it in New Jersey state court. In April 2014, *Bank of America/Merrill Lynch s* motion to dismiss was granted in part and denied in part, with the court upholding the common law and equitable fraud claims, and the 1933 Securities Act claims. The court dismissed with prejudice the negligent representation claim, dismissed without prejudice the New Jersey civil RICO claims and certain common law fraud claims and permitted the Company 45 days to file an amended complaint. In June 2014, the Company filed an amended complaint against *Bank of America/Merrill Lynch*. In July 2014, *Bank of America/Merrill Lynch* filed motions to dismiss all remaining claims against it. The actions filed against *Bank of America/Merrill Lynch* are currently pending in New Jersey federal court. The motions to dismiss filed by *Bank of America/Merrill Lynch, Barclays, Countrywide, Nomura, RBS* and *UBS* are pending. In July 2014, the lawsuit against *J.P. Morgan* was settled.

In June 2014, the Company, together with nine other institutional investors, filed six actions against certain RMBS trustees. The actions were filed in New York state court, captioned *BlackRock Allocation Target Shares: Series S Portfolio, et al. v. U.S. Bank Nat l Ass n, et al.; BlackRock Balanced Capital Portfolio (FI), et al. v. Deutsche Bank Nat l Trust Co., et al.; BlackRock Allocation Target Shares: Series S Portfolio, et al. v. The Bank of New York Mellon, et al.; BlackRock Allocation Target Shares: Series S Portfolio, et al. v. Wells Fargo, Nat l Ass n, et al.; BlackRock Balanced Capital Portfolio (FI), et al. v. Citibank N.A., et al.; and BlackRock Core Active LIBOR Fund B, et al. v. HSBC Bank USA, Nat l Ass n, et al*. The actions, which are brought derivatively on behalf of more than 2,200 RMBS trusts, seek unspecified damages attributable to the trustees alleged failure to: (i) enforce the trusts respective repurchase rights against sellers of defective mortgage loans; and (ii) properly monitor the respective mortgage loan servicers. The complaints assert claims for breach of contract, breach of fiduciary duty, negligence and violations of the Trust Indenture Act of 1939. In July 2014, the Company amended its complaint against each of the six defendants.

In May 2014, Prudential Investment Portfolios 2, on behalf of the Prudential Core Short-Term Bond Fund and the Prudential Core Taxable Money Market Fund (the Funds), filed an action against ten banks in the United States District Court for the District of New Jersey asserting that the banks participated in the setting of LIBOR, a major benchmark interest rate. The action is captioned *Prudential Investment Portfolios 2, f/k/a Dryden Core Investment Fund, o/b/o Prudential Core Short-Term Bond Fund and Prudential Core Taxable Money Market Fund v. Bank of America Corporation et al*. The Complaint alleges that the defendant banks manipulated LIBOR, and asserts, among other things, claims for common law fraud, negligent misrepresentation, breach of contract, intentional interference with contract and with prospective economic relations, unjust enrichment, breaches of the New Jersey Civil RICO statute, and violations of the Sherman Act. In June 2014, the United States Judicial Panel on Multidistrict Litigation transferred the action to the United States District Court for the Southern District of New York, where it has been consolidated for pre-trial purposes with other pending LIBOR-related actions.

Summary

The Company s litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that the Company s results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company s litigation and regulatory matters, it is also

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company s financial position. Management believes, however, that, based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, is not likely to have a material adverse effect on the Company s financial position.

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Financial Position

June 30, 2014 and December 31, 2013 (in millions)

	June 30, 2014			December 31, 2013		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
ASSETS						
Fixed maturities, available-for-sale, at fair value	$ 258,673	$ 45,799	$ 304,472	$ 243,654	$ 43,212	$ 286,866
Fixed maturities, held-to-maturity, at amortized cost	3,171	0	3,171	3,312	0	3,312
Trading account assets supporting insurance liabilities, at fair value	21,273	0	21,273	20,827	0	20,827
Other trading account assets, at fair value	8,351	314	8,665	6,111	342	6,453
Equity securities, available-for-sale, at fair value	6,433	3,789	10,222	6,026	3,884	9,910
Commercial mortgage and other loans	33,000	9,964	42,964	31,335	9,673	41,008
Policy loans	7,021	4,945	11,966	6,753	5,013	11,766
Other long-term investments	8,309	2,614	10,923	8,304	2,024	10,328
Short-term investments	4,278	1,385	5,663	5,837	1,866	7,703
Total investments	350,509	68,810	419,319	332,159	66,014	398,173
Cash and cash equivalents	11,335	825	12,160	10,797	642	11,439
Accrued investment income	2,583	579	3,162	2,505	584	3,089
Deferred policy acquisition costs	16,300	369	16,669	16,101	411	16,512
Value of business acquired	3,499	0	3,499	3,675	0	3,675
Other assets	13,224	703	13,927	13,082	751	13,833
Separate account assets	296,801	0	296,801	285,060	0	285,060
TOTAL ASSETS	$ 694,251	$ 71,286	$ 765,537	$ 663,379	$ 68,402	$ 731,781
LIABILITIES AND EQUITY						
LIABILITIES						
Future policy benefits	$ 165,179	$ 50,040	$ 215,219	$ 156,601	$ 50,258	$ 206,859
Policyholders account balances	133,217	5,328	138,545	131,298	5,359	136,657
Policyholders dividends	158	7,028	7,186	97	5,418	5,515
Securities sold under agreements to repurchase	4,895	3,891	8,786	4,128	3,770	7,898
Cash collateral for loaned securities	3,596	1,293	4,889	4,230	810	5,040
Income taxes	8,929	(425)	8,504	6,010	(588)	5,422
Short-term debt	3,729	75	3,804	2,594	75	2,669
Long-term debt	21,888	1,600	23,488	21,953	1,600	23,553
Other liabilities	11,011	924	11,935	13,618	307	13,925
Notes issued by consolidated variable interest entities	4,573	0	4,573	3,302	0	3,302
Separate account liabilities	296,801	0	296,801	285,060	0	285,060
Total liabilities	653,976	69,754	723,730	628,891	67,009	695,900
EQUITY						
Accumulated other comprehensive income	12,892	185	13,077	8,586	95	8,681
Other attributed equity	26,771	1,347	28,118	25,299	1,298	26,597

Total attributed equity	39,663	1,532	41,195	33,885	1,393	35,278
Noncontrolling interests	612	0	612	603	0	603
Total equity	40,275	1,532	41,807	34,488	1,393	35,881
TOTAL LIABILITIES AND EQUITY	$ 694,251	$ 71,286	$ 765,537	$ 663,379	$ 68,402	$ 731,781

See Notes to Unaudited Interim Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

Three Months Ended June 30, 2014 and 2013 (in millions)

	Three Months Ended June 30,					
	2014			2013		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 5,357	$ 711	$ 6,068	$ 6,211	$ 711	$ 6,922
Policy charges and fee income	1,520	0	1,520	1,375	0	1,375
Net investment income	3,019	735	3,754	2,941	770	3,711
Asset management and service fees	928	0	928	880	0	880
Other income	246	21	267	(1,828)	5	(1,823)
Realized investment gains (losses), net:						
Other-than-temporary impairments on fixed maturity securities	(22)	(10)	(32)	(125)	(55)	(180)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	5	1	6	102	45	147
Other realized investment gains (losses), net	258	377	635	(979)	(12)	(991)
Total realized investment gains (losses), net	241	368	609	(1,002)	(22)	(1,024)
Total revenues	11,311	1,835	13,146	8,577	1,464	10,041
BENEFITS AND EXPENSES						
Policyholders benefits	5,555	911	6,466	6,154	870	7,024
Interest credited to policyholders account balances	1,145	33	1,178	360	34	394
Dividends to policyholders	23	688	711	37	408	445
Amortization of deferred policy acquisition costs	473	9	482	211	9	220
General and administrative expenses	2,664	138	2,802	2,588	139	2,727
Total benefits and expenses	9,860	1,779	11,639	9,350	1,460	10,810
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,451	56	1,507	(773)	4	(769)
Income tax expense (benefit)	389	15	404	(276)	1	(275)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,062	41	1,103	(497)	3	(494)
Equity in earnings of operating joint ventures, net of taxes	6	0	6	5	0	5
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,068	41	1,109	(492)	3	(489)
Income (loss) from discontinued operations, net of taxes	4	0	4	2	0	2

NET INCOME (LOSS)	1,072	41	1,113	(490)	3	(487)
Less: Income (loss) attributable to noncontrolling interests	23	0	23	27	0	27
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 1,049	$ 41	$ 1,090	$ (517)	$ 3	$ (514)

See Notes to Unaudited Interim Supplemental Combining Financial Information

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

Six Months Ended June 30, 2014 and 2013 (in millions)

	Six Months Ended June 30,					
	2014			2013		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 10,586	$ 1,350	$ 11,936	$ 12,648	$ 1,358	$ 14,006
Policy charges and fee income	3,021	0	3,021	2,731	0	2,731
Net investment income	6,082	1,510	7,592	5,816	1,533	7,349
Asset management and service fees	1,832	0	1,832	1,700	0	1,700
Other income	766	36	802	(3,844)	17	(3,827)
Realized investment gains (losses), net:						
Other-than-temporary impairments on fixed maturity securities	(82)	(29)	(111)	(334)	(154)	(488)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	55	14	69	252	133	385
Other realized investment gains (losses), net	339	520	859	(1,740)	96	(1,644)
Total realized investment gains (losses), net	312	505	817	(1,822)	75	(1,747)
Total revenues	22,599	3,401	26,000	17,229	2,983	20,212
BENEFITS AND EXPENSES						
Policyholders benefits	11,149	1,703	12,852	12,558	1,685	14,243
Interest credited to policyholders account balances	2,126	67	2,193	1,376	68	1,444
Dividends to policyholders	46	1,265	1,311	94	911	1,005
Amortization of deferred policy acquisition	899	20	919	418	20	438
General and administrative expenses	5,223	277	5,500	5,134	276	5,410
Total benefits and expenses	19,443	3,332	22,775	19,580	2,960	22,540
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	3,156	69	3,225	(2,351)	23	(2,328)
Income tax expense (benefit)	862	15	877	(1,107)	5	(1,102)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	2,294	54	2,348	(1,244)	18	(1,226)
Equity in earnings of operating joint ventures, net of taxes	6	0	6	51	0	51
INCOME (LOSS) FROM CONTINUING OPERATIONS	2,300	54	2,354	(1,193)	18	(1,175)
Income (loss) from discontinued operations, net of taxes	8	0	8	3	0	3
NET INCOME (LOSS)	2,308	54	2,362	(1,190)	18	(1,172)
Less: Income (loss) attributable to noncontrolling interests	34	0	34	62	0	62

NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 2,274	$ 54	$ 2,328	$ (1,252)	$ 18	$ (1,234)

See Notes to Unaudited Interim Supplemental Combining Financial Information

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Supplemental Combining Financial Information

1. BASIS OF PRESENTATION

The supplemental combining financial information presents the consolidated financial position and results of operations for Prudential Financial, Inc. and its subsidiaries (together, the Company), separately reporting the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses and the Closed Block Business are both fully integrated operations of the Company and are not separate legal entities. The supplemental combining financial information presents the results of the Financial Services Businesses and the Closed Block Business as if they were separate reporting entities and should be read in conjunction with the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

The Company has outstanding two classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business.

The Closed Block Business was established on the date of demutualization and includes the assets and liabilities of the Closed Block (see Note 6 to the Unaudited Interim Consolidated Financial Statements for a description of the Closed Block). It also includes assets held outside the Closed Block necessary to meet insurance regulatory capital requirements related to products included within the Closed Block; deferred policy acquisition costs related to the Closed Block policies; the principal amount of the IHC debt (as discussed below) and related unamortized debt issuance costs, as well as an interest rate swap related to the IHC debt; and certain other related assets and liabilities. The Financial Services Businesses consist of the U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance divisions and Corporate and Other operations.

2. ALLOCATION OF RESULTS

This supplemental combining financial information reflects the assets, liabilities, revenues and expenses directly attributable to the Financial Services Businesses and the Closed Block Business, as well as allocations deemed reasonable by management in order to fairly present the financial position and results of operations of the Financial Services Businesses and the Closed Block Business on a stand-alone basis. While management considers the allocations utilized to be reasonable, management has the discretion to make operational and financial decisions that may affect the allocation methods and resulting assets, liabilities, revenues and expenses of each business. In addition, management has limited discretion over accounting policies and the appropriate allocation of earnings between the two businesses. The Company is subject to agreements which provide that, in most instances, the Company may not change the allocation methodology or accounting policies for the allocation of earnings between the Financial Services Businesses and Closed Block Business without the prior consent of the Class B Stock holders or IHC debt bond insurer.

General corporate overhead not directly attributable to a specific business that has been incurred in connection with the generation of the businesses revenues is generally allocated between the Financial Services Businesses and the Closed Block Business based on the general and administrative expenses of each business as a percentage of the total general and administrative expenses for all businesses.

Prudential Holdings, LLC, a wholly-owned subsidiary of Prudential Financial, Inc., has outstanding senior secured notes (the IHC debt), of which net proceeds of $1.66 billion were allocated to the Financial Services Businesses concurrent with the demutualization on December 18, 2001. The IHC debt is serviced by the cash flows of the Closed Block Business, and the results of the Closed Block Business reflect interest expense associated with the IHC debt.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Supplemental Combining Financial Information (Continued)

Income taxes are allocated between the Financial Services Businesses and the Closed Block Business as if they were separate companies based on the taxable income or losses and other tax characterizations of each business. If the Financial Services Businesses generate tax benefits, such as net operating losses, it is entitled to record such tax benefits to the extent they are expected to be utilized on a consolidated basis. However, if the Closed Block Business generates tax benefits, it will receive the full benefit in cash, and the Financial Services Businesses will subsequently recover the payment at the time the benefits are actually utilized on a consolidated basis.

Holders of Common Stock have no interest in a separate legal entity representing the Financial Services Businesses; holders of the Class B Stock have no interest in a separate legal entity representing the Closed Block Business; and holders of each class of common stock are subject to all of the risks associated with an investment in the Company.

In the event of a liquidation, dissolution or winding-up of the Company, holders of Common Stock and holders of Class B Stock would be entitled to receive a proportionate share of the net assets of the Company that remain after paying all liabilities and the liquidation preferences of any preferred stock.

The results of the Financial Services Businesses are subject to certain risks pertaining to the Closed Block. These include any expenses and liabilities from litigation affecting the Closed Block policies as well as the consequences of certain potential adverse tax determinations. In connection with the sale of the Class B Stock and IHC debt, the cost of indemnifying the investors with respect to certain matters will be borne by the Financial Services Businesses.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) addresses the consolidated financial condition of Prudential Financial as of June 30, 2014, compared with December 31, 2013, and its consolidated results of operations for the three and six months ended June 30, 2014 and 2013. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the Risk Factors section, and the audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013, as well as the statements under Forward-Looking Statements and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

Prudential Financial has two classes of common stock outstanding. The Common Stock, which is publicly traded (NYSE:PRU), reflects the performance of the Financial Services Businesses, while the Class B Stock, which was issued through a private placement and does not trade on any exchange, reflects the performance of the Closed Block Business. The Financial Services Businesses and the Closed Block Business are discussed below.

Financial Services Businesses

Our Financial Services Businesses consist of three operating divisions, which together encompass six segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of our Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of our Individual Life and Group Insurance segments. The International Insurance division consists of our International Insurance segment. Our Corporate and Other operations include corporate items and initiatives that are not allocated to business segments, as well as businesses that have been 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.

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

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

Closed Block Business

In connection with demutualization, we ceased offering domestic participating products. The liabilities for our traditional domestic in force participating products were segregated, together with assets, in a regulatory mechanism referred to as the Closed Block. The Closed Block is designed generally to provide for reasonable expectations for future policy dividends after demutualization of holders of participating individual life insurance policies and annuities included in the Closed Block by allocating assets that will be used exclusively for payment of benefits, including policyholder dividends, expenses and taxes with respect to these products. See Note 6 to the Unaudited Interim Consolidated Financial Statements and Business Demutualization and Separation of the Businesses in our 2013 Annual Report on Form 10-K for more information on the Closed Block.

Executive Summary

Prudential Financial, a financial services leader with approximately $1.166 trillion of assets under management as of June 30, 2014, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, and investment management. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

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

On each of February 11, 2014 and May 13, 2014, Prudential Financial s Board of Directors declared a cash dividend of $0.53 per share of Common Stock.

On January 2, 2014, we completed the acquisition of UniAsia Life Assurance Berhad, an established life insurance company in Malaysia, through the formation of a joint venture with Bank Simpanan Nasional (BSN), a bank owned by the Malaysian government. The joint venture paid cash consideration of $158 million, 70% of which was provided by Prudential Insurance and 30% of which was provided by BSN. Subsequent to the acquisition, we renamed the acquired company Gibraltar BSN Life Berhad.

Regulatory Developments

Prudential Financial is a Designated Financial Company under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the Federal Reserve Bank of Boston and to prudential regulatory standards under the Dodd-Frank Act. The Financial Stability Board (the FSB), consisting of representatives of national financial authorities of the G20 nations, has also identified Prudential Financial as a global systemically important insurer that is to be subject to enhanced regulation.

On June 30, 2014, as a Designated Financial Company, we submitted to the Federal Reserve Board (FRB) and the Federal Deposit Insurance Corporation (FDIC) an initial annual resolution plan in the event of severe financial distress as required by the rules of the FRB and FDIC.

At the direction of the FSB, the International Association of Insurance Supervisors (the IAIS) is currently developing a model framework (ComFrame) for the supervision of internationally active insurance groups (IAIGs) that contemplates group wide supervision across national boundaries. Prudential Financial qualifies as an IAIG. In March 2014, we began participating in field testing to assist the IAIS in its development of ComFrame. Initial field testing has focused on gathering data to inform the development of the first step of ComFrame s risk-based global insurance capital standard, known as the Basic Capital Requirement (BCR). The IAIS is scheduled to seek G20 endorsement of the proposed BCR framework in November 2014.

In February 2014, the New York Department of Financial Services (NY DFS) notified us that it does not agree with our calculation of statutory reserves (including the applicable credit for reinsurance) for New York

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purposes in respect of certain variable annuity products. We are continuing discussions with the NY DFS regarding the proper level of statutory reserves (including the applicable credit for reinsurance) for these and other products. If we are ultimately required to establish material additional reserves on a New York statutory accounting basis or post material amounts of additional collateral with respect to such variable annuity or other products, our ability to deploy capital held within our U.S. domestic insurance subsidiaries for other purposes could be affected. Most of our U.S. operating insurance companies are licensed in New York, but none are domiciled in New York.

The National Association of Insurance Commissioners (NAIC), the NY DFS and other regulators continue to review life insurers use of captive reinsurance companies. On June 4, 2014, Rector & Associates, Inc., a consulting firm commissioned by the NAIC, presented a revised report to the NAIC s Principle-Based Reserving Implementation Task Force that recommended, among other things, placing limitations on the types of assets that may be used to finance reserves associated with certain term and universal life insurance policies and making adoption of new regulations contemplated by the Rector Report by individual states an NAIC accreditation standard. On June 30, 2014, this NAIC Task Force adopted the regulatory framework proposed by Rector & Associates, including recommendations to have various technical workgroups of the NAIC propose regulations to implement the new framework. In addition, another committee of the NAIC has proposed changes to the NAIC accreditation standards that would regulate captive reinsurance companies that assume business directly written in more than one state as multi-state reinsurers and apply accreditation standards to those captives that historically were applicable only to traditional insurers. For information on our use of captive reinsurance companies and the potential effects of these proposals on us, see Liquidity and Capital Resources Capital Captive Reinsurance Companies below.

For additional information on the potential impacts of regulation on the Company, including the topics described above, see Business Regulation and Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Impact of a Low Interest Rate Environment

Domestic Financial Services Businesses

As interest rates in the U.S. continue to remain lower than historical levels, our current reinvestment yields are consequently lower than the overall portfolio yield, primarily for our investments in fixed maturity securities and commercial mortgage loans. With the Federal Reserve Board s stated intention to keep interest rates low through at least 2014, our overall portfolio yields are expected to continue to decline throughout the remainder of this year.

For the domestic Financial Services Businesses general account, we expect annual scheduled payments and prepayments to be approximately 10% of the fixed maturity security and commercial mortgage loan portfolios through 2015. The domestic Financial Services Businesses general account has approximately $163 billion of such assets (based on net carrying value) as of June 30, 2014. As these assets mature, the current average portfolio yield for fixed maturities and commercial mortgage loans of approximately 4.5% is expected to decline due to reinvesting in a lower interest rate environment. Included in the $163 billion of fixed maturity securities and commercial mortgage loans are approximately $71 billion that are subject to call or redemption features at the issuer s option and have a weighted average interest rate of approximately 5%. As of June 30, 2014, approximately 80% of these assets contain prepayment penalties.

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The reinvestment of scheduled payments and prepayments at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, will impact future operating results to the extent we do not, or are unable to, reduce crediting rates on in-force blocks of business, or effectively utilize other asset/liability management strategies described below, in order to maintain current net interest margins. As of June 30, 2014, our domestic Financial Services Businesses have approximately $154 billion of insurance liabilities and policyholder account balances. Of this amount, approximately $49 billion represents contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. The following table sets forth the related account values by range of guaranteed minimum crediting rates and the related range of the difference, in basis points (bps), between rates being credited to contractholders as of June 30, 2014, and the respective guaranteed minimums.

	Account Values with Crediting Rates:					
	At guaranteed minimum	1-49 bps above guaranteed minimum	50-99 bps above guaranteed minimum	100-150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
	($ in billions)					
Range of Guaranteed Minimum Crediting Rates:						
Less than 1.00%	$ 0.6	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.6
1.00% - 1.99%	1.5	1.9	10.6	1.8	0.2	16.0
2.00% - 2.99%	2.3	0.0	0.6	1.7	0.2	4.8
3.00% - 4.00%	24.1	1.9	0.5	0.2	0.0	26.7
Greater than 4.00%	0.9	0.0	0.0	0.0	0.0	0.9
Total	$ 29.4	$ 3.8	$ 11.7	$ 3.7	$ 0.4	$ 49.0
Percentage of total	60%	8%	24%	7%	1%	100%

Although we may have the ability to lower crediting rates for those contracts above guaranteed minimums, our willingness to do so may be limited by competitive pressures.

Our domestic Financial Services Businesses also have approximately $14 billion of insurance liabilities and policyholder account balances representing participating contracts for which the investment income risk is expected to ultimately accrue to contractholders. The crediting rates for these contracts are periodically adjusted based on the yield earned on the related assets. The remaining $91 billion of the $154 billion of insurance liabilities and policyholder account balances in our domestic Financial Services Businesses represents long duration products such as group annuities, structured settlements and other insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. We seek to mitigate the impact of a prolonged low interest rate environment on these contracts through asset/liability management, as discussed further below.

For the domestic Financial Services Businesses general account, assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 2.50% for the period from July 1, 2014 through December 31, 2015, and credit spreads remain unchanged from levels as of June 30, 2014, we estimate that the unfavorable impact to net interest margins included in pre-tax adjusted operating income of reinvesting in such an environment, compared to reinvesting at current average portfolio yields, would be approximately $6 million in 2014 and $50 million in 2015. This impact is most significant in the Retirement and Individual Annuities segments. This hypothetical scenario only reflects the impact related to the approximately $49 billion of contracts shown in the table above, and does not reflect: i) any benefit from potential changes to the crediting rates on the corresponding contractholder liabilities where the Company has the contractual ability to do so, or other potential mitigants such as changes in investment mix that we may implement as funds are reinvested; ii) any impact related to assets that do not directly support our liabilities; iii) any impact from other factors, including but not limited to, new business, contractholder behavior, changes in competitive conditions, and changes in capital markets; and/or iv) any impact from other factors described below.

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

Japanese Insurance Operations

Our Japanese insurance operations have experienced a low interest rate environment for many years. As of June 30, 2014, these operations have $129 billion of insurance liabilities and policyholder account balances, which are predominantly comprised of long duration insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. Also included in the $129 billion are approximately $7 billion of insurance liabilities and policyholder account balances with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums; however, for these contracts, most of the current crediting rates are substantially at or near contractual minimums. Although we have the ability to lower crediting rates in some cases for those contracts above guaranteed minimum crediting rates, the majority of this business has credited interest rates which are determined by formula. Our Japanese insurance operations employ a proactive asset/liability management program in order to mitigate the unfavorable impact that the current interest rate environment has on our net interest margins, and includes strategies similar to those described for the domestic Financial Services Businesses above.

Results of Operations

Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the second quarter and first six months of 2014 was $1,049 million and $2,274 million, respectively, compared to a net loss of $517 million and $1,252 million for the second quarter and first six months of 2013, respectively.

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

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Pre-tax adjusted operating income for the Financial Services Businesses for the second quarter and first six months of 2014 was $1,623 million and $3,194 million, respectively, compared to $1,517 million and $2,995 million for the second quarter and first six months of 2013, respectively. Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the periods indicated and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Adjusted operating income before income taxes for Financial Services Businesses by Segment:				
Individual Annuities	$ 390	$ 400	$ 778	$ 772
Retirement	286	279	650	507
Asset Management	200	172	393	341
Total U.S. Retirement Solutions and Investment Management Division	876	851	1,821	1,620
Individual Life	158	141	283	278
Group Insurance	46	22	52	31
Total U.S. Individual Life and Group Insurance Division	204	163	335	309
International Insurance	884	850	1,721	1,727
Total International Insurance Division	884	850	1,721	1,727
Corporate Operations	(341)	(347)	(683)	(661)
Total Corporate and Other	(341)	(347)	(683)	(661)
Adjusted operating income before income taxes for the Financial Services Businesses	1,623	1,517	3,194	2,995
Reconciling Items:				
Realized investment gains (losses), net, and related adjustments(1)	(202)	(2,698)	(153)	(6,003)
Charges related to realized investment gains (losses), net(2)	(71)	468	(128)	770
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	225	(471)	326	(376)
Change in experience-rated contractholder liabilities due to asset value changes(4)	(189)	471	(232)	328
Divested businesses(5)	47	(84)	120	(55)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(6)	18	24	29	(10)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,451	(773)	3,156	(2,351)
Income (loss) from continuing operations before income taxes for Closed Block Business	56	4	69	23
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,507	$ (769)	$ 3,225	$ (2,328)

(1) Represents Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and Note 11 to our Unaudited Interim Consolidated Financial Statements for additional information.

(2) Includes charges that represent the impact of realized investment gains (losses), net, on the amortization of deferred policy acquisition costs and other costs, and on changes in reserves. Also includes charges resulting from payments related to market value adjustment features of certain of our annuity products and the impact of realized investment gains (losses), net, on the amortization of unearned revenue reserves.

(3) Represents net investment gains and losses on trading account assets supporting insurance liabilities. See Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments.

(4) Represents changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. See Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments.
(5) See Divested Businesses.
(6) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before taxes and equity earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

Results for the periods presented above reflect the following:

Individual Annuities. Results for the second quarter of 2014 decreased in comparison to the second quarter of 2013, reflecting an unfavorable comparative impact on reserves and the amortization of DAC and other costs from changes in the estimated profitability of the business, which more than offset higher net asset-based fee income. Results for the first six months of 2014 increased in comparison to the prior year period, reflecting higher net asset-based fee income, partially offset by an unfavorable comparative impact on reserves and the amortization of DAC and other costs from changes in the estimated profitability of the business.

Retirement. Results for the second quarter and first six months of 2014 increased in comparison to the prior year periods. Results for the second quarter reflect higher net investment spread results, a more favorable reserve benefit from case experience, and higher asset-based fee income resulting from increased account values, partially offset by higher expenses. Results for the first six months of 2014 reflect higher net investment spread results and higher asset-based fee income resulting from increased account values.

Asset Management. Results for the second quarter and first six months of 2014 increased in comparison to the prior year periods. The increases for both periods primarily reflect higher asset management fees, net of expenses, driven by higher assets under management due to market appreciation and positive net flows. Also contributing to the increase in both periods is improved strategic investing results.

Individual Life. Results for the second quarter and first six months of 2014 increased in comparison to the prior year periods. The increases for both periods reflect higher net contributions from investment results driven by higher invested assets and lower expenses. Results for the second quarter compared to the prior year period also reflect more favorable mortality experience, net of reinsurance and reserve updates, while results for the first six months of 2014 compared to the prior year period reflect less favorable mortality experience, net of reinsurance and reserve updates.

Group Insurance. Results for the second quarter and first six months of 2014 increased in comparison to the prior year periods. Results for the second quarter of 2014 reflect more favorable comparative underwriting results in both our group disability and group life businesses. Results for the first six months of 2014 reflect more favorable underwriting results in our group life business and an increase in income from non-coupon investments, partially offset by higher operating expenses.

International Insurance. Results for the second quarter of 2014 increased in comparison to the prior year period reflecting more favorable mortality experience, lower net expenses, net business growth, and the absence of integration costs associated with our acquisition of the former Star and Edison businesses, partially offset by a lesser impact from accelerated earnings due to surrenders of certain fixed annuities as well as less favorable foreign currency exchange rates.

Results for the first six months of 2014 decreased in comparison to the prior year period as the benefits of net business growth, lower net expenses and the absence of integration costs associated with our acquisition of the former Star and Edison businesses were more than offset by the impact of a gain on our investment, through a consortium, in China Pacific Group in 2013, a lesser impact from accelerated earnings due to surrenders of certain fixed annuities and less favorable foreign currency exchange rates.

Corporate and Other operations. Results for the second quarter of 2014 improved compared to the prior year period, primarily driven by lower interest expense, partially offset by lower income from our qualified pension plan. Results for the first six months of 2014 declined compared to the prior year period, primarily driven by lower income from our qualified pension plan and higher levels of corporate expenses, partially offset by lower interest expense.

Closed Block Business. Income from continuing operations before income taxes for the second quarter and first six months of 2014 increased in comparison to the prior year periods. Results primarily reflect an increase in net realized investment gains partially offset by increases in the policyholder dividend obligation expense.

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Consolidated Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions)			
Financial Services Businesses:				
Revenues	$ 11,311	$ 8,577	$ 22,599	$ 17,229
Benefits and expenses	9,860	9,350	19,443	19,580
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,451	(773)	3,156	(2,351)
Income tax expense (benefit)	389	(276)	862	(1,107)
Income (loss) from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	1,062	(497)	2,294	(1,244)
Equity in earnings of operating joint ventures, net of taxes	6	5	6	51
Income (loss) from continuing operations for Financial Services Businesses	1,068	(492)	2,300	(1,193)
Income (loss) from discontinued operations, net of taxes	4	2	8	3
Net income (loss) Financial Services Businesses	1,072	(490)	2,308	(1,190)
Less: Income attributable to noncontrolling interests	23	27	34	62
Net income (loss) of Financial Services Businesses attributable to Prudential Financial, Inc.	$ 1,049	$ (517)	$ 2,274	$ (1,252)
Closed Block Business:				
Revenues	$ 1,835	$ 1,464	$ 3,401	$ 2,983
Benefits and expenses	1,779	1,460	3,332	2,960
Income (loss) from continuing operations before income taxes for Closed Block Business	56	4	69	23
Income tax expense (benefit)	15	1	15	5