PRUDENTIAL FINANCIAL INC
Form 10-Q
May 08, 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 March 31, 2014

OR

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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 April 30, 2014, 460 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

March 31, 2014 and December 31, 2013 (in millions, except share amounts)

	March 31, 2014	December 31, 2013
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2014-$272,829; 2013-$268,727)(1)	$ 295,321	$ 286,866
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2014-$3,537; 2013-$3,553)(1)	3,275	3,312
Trading account assets supporting insurance liabilities, at fair value(1)	20,935	20,827
Other trading account assets, at fair value(1)	8,021	6,453
Equity securities, available-for-sale, at fair value (cost: 2014-$7,291; 2013-$7,003)	10,191	9,910
Commercial mortgage and other loans (includes $124 and $158 measured at fair value under the fair value option at March 31, 2014 and December 31, 2013, respectively)(1)	42,392	41,008
Policy loans	11,833	11,766
Other long-term investments (includes $885 and $873 measured at fair value under the fair value option at March 31, 2014 and December 31, 2013, respectively)(1)	10,477	10,328
Short-term investments	6,023	7,703
Total investments	408,468	398,173
Cash and cash equivalents(1)	12,472	11,439
Accrued investment income(1)	3,134	3,089
Deferred policy acquisition costs	16,617	16,512
Value of business acquired	3,610	3,675
Other assets(1)	14,273	13,833
Separate account assets	288,161	285,060
TOTAL ASSETS	$ 746,735	$ 731,781
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 211,540	$ 206,859
Policyholders account balances(1)	137,244	136,657
Policyholders dividends	6,519	5,515
Securities sold under agreements to repurchase	8,348	7,898
Cash collateral for loaned securities	5,282	5,040
Income taxes	6,860	5,422
Short-term debt	4,019	2,669
Long-term debt	22,565	23,553

Other liabilities(1)	13,232	13,925
Notes issued by consolidated variable interest entities (includes $4,062 and $3,254 measured at fair value under the fair value option at March 31, 2014 and December 31, 2013, respectively)(1)	4,101	3,302
Separate account liabilities	288,161	285,060
Total liabilities	707,871	695,900
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 660,111,328 and 660,111,319 shares issued at March 31, 2014 and December 31, 2013, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively)	0	0
Additional paid-in capital	24,435	24,475
Common Stock held in treasury, at cost (199,684,283 and 199,056,067 shares at March 31, 2014 and December 31, 2013, respectively)	(12,533)	(12,415)
Accumulated other comprehensive income (loss)	10,798	8,681
Retained earnings	15,517	14,531
Total Prudential Financial, Inc. equity	38,223	35,278
Noncontrolling interests	641	603
Total equity	38,864	35,881
TOTAL LIABILITIES AND EQUITY	$ 746,735	$ 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 Months Ended March 31, 2014 and 2013 (in millions, except per share amounts)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
REVENUES		
Premiums	$ 5,868	$ 7,084
Policy charges and fee income	1,501	1,356
Net investment income	3,838	3,638
Asset management and service fees	904	820
Other income	535	(2,004)
Realized investment gains (losses), net:		
Other-than-temporary impairments on fixed maturity securities	(79)	(308)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	63	238
Other realized investment gains (losses), net	224	(653)
Total realized investment gains (losses), net	208	(723)
Total revenues	12,854	10,171
BENEFITS AND EXPENSES		
Policyholders benefits	6,386	7,219
Interest credited to policyholders account balances	1,015	1,050
Dividends to policyholders	600	560
Amortization of deferred policy acquisition costs	437	218
General and administrative expenses	2,698	2,683
Total benefits and expenses	11,136	11,730
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,718	(1,559)
Income tax expense (benefit)	473	(827)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,245	(732)
Equity in earnings of operating joint ventures, net of taxes	0	46
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,245	(686)
Income (loss) from discontinued operations, net of taxes	4	1
NET INCOME (LOSS)	1,249	(685)
Less: Income (loss) attributable to noncontrolling interests	11	35
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	$ 1,238	$ (720)
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.	$ 2.62	$ (1.58)
Income (loss) from discontinued operations, net of taxes	0.01	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$ 2.63	$ (1.58)
Diluted earnings per share-Common Stock:		
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 2.58	$ (1.58)
Income (loss) from discontinued operations, net of taxes	0.01	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$ 2.59	$ (1.58)
Dividends declared per share of Common Stock	$ 0.53	$ 0.40
Closed Block Business		
Basic and Diluted earnings per share-Class B Stock:		
Income (loss) from continuing operations attributable to Prudential Financial, Inc.	$ 7.50	$ 5.50
Income (loss) from discontinued operations, net of taxes	0.00	0.00
Net income (loss) attributable to Prudential Financial, Inc.	$ 7.50	$ 5.50
Dividends declared per share of Class B Stock	$ 2.41	$ 2.41

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income

Three Months Ended March 31, 2014 and 2013 (in millions)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
NET INCOME (LOSS)	$ 1,249	$ (685)
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustments for the period	80	(901)
Net unrealized investment gains (losses)	3,068	4,278
Defined benefit pension and postretirement unrecognized periodic benefit	23	50
Total	3,171	3,427
Less: Income tax expense (benefit) related to other comprehensive income (loss)	1,047	1,223
Other comprehensive income (loss), net of taxes	2,124	2,204
Comprehensive income (loss)	3,373	1,519
Less: Comprehensive income (loss) attributable to noncontrolling interests	18	35
Comprehensive income (loss) attributable to Prudential Financial, Inc.	$ 3,355	$ 1,484

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity(1)

Three Months Ended March 31, 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				(250)		(250)		(250)
Contributions from noncontrolling interests						0	0	0
Distributions to noncontrolling interests						0	(36)	(36)
Consolidations/(deconsolidations) of noncontrolling interests						0	56	56
Stock-based compensation programs		(40)	0	132		92		92
Dividends declared on Common Stock			(247)			(247)		(247)
Dividends declared on Class B Stock			(5)			(5)		(5)
Comprehensive income:								
Net income (loss)			1,238			1,238	11	1,249
Other comprehensive income (loss), net of tax					2,117	2,117	7	2,124
Total comprehensive income (loss)						3,355	18	3,373
Balance, March 31, 2014	$ 6	$ 24,435	$ 15,517	$ (12,533)	$ 10,798	$ 38,223	$ 641	$ 38,864

	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						0		0
Contributions from noncontrolling interests						0	1	1
Distributions to noncontrolling								0
interests						0	(56)	(56)
Consolidations/(deconsolidations) of noncontrolling interests						0		0
Stock-based compensation programs		(26)	(36)	145		83		83
Dividends declared on Common Stock			(188)			(188)		(188)
Dividends declared on Class B Stock			(5)			(5)		(5)
Comprehensive income:								
Net income (loss)			(720)			(720)	35	(685)
Other comprehensive income (loss), net of tax					2,204	2,204	0	2,204
Total comprehensive income (loss)						1,484	35	1,519

Balance, March 31, 2013	$ 6	$ 24,354	$ 15,117	$ (12,018)	$ 12,418	$ 39,877	$ 589	$ 40,466

(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

Three Months Ended March 31, 2014 and 2013 (in millions)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 1,249	$ (685)
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(208)	723
Policy charges and fee income	(509)	(514)
Interest credited to policyholders account balances	1,015	1,050
Depreciation and amortization	41	109
Gains on trading account assets supporting insurance liabilities, net	(101)	(93)
Change in:		
Deferred policy acquisition costs	(231)	(645)
Future policy benefits and other insurance liabilities	1,568	2,545
Other trading account assets	(14)	(10)
Income taxes	388	(1,653)
Other, net	(1,219)	(640)
Cash flows from operating activities	1,979	187
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	13,437	11,805
Fixed maturities, held-to-maturity	93	125
Trading account assets supporting insurance liabilities and other trading account assets	3,066	5,658
Equity securities, available-for-sale	994	1,003
Commercial mortgage and other loans	573	1,287
Policy loans	537	572
Other long-term investments	195	499
Short-term investments	16,822	9,311
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(15,701)	(13,564)
Fixed maturities, held-to-maturity	(22)	(14)
Trading account assets supporting insurance liabilities and other trading account assets	(3,892)	(6,498)
Equity securities, available-for-sale	(1,094)	(985)
Commercial mortgage and other loans	(1,926)	(2,008)
Policy loans	(465)	(441)
Other long-term investments	(495)	(633)
Short-term investments	(15,270)	(9,053)
Acquisition of business, net of cash acquired	(23)	(488)
Other, net	202	(228)
Cash flows used in investing activities	(2,969)	(3,652)

See Notes to Unaudited Interim Consolidated Financial Statements

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	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders account deposits	$ 5,751	$ 5,881
Policyholders account withdrawals	(5,368)	(6,438)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	691	344
Cash dividends paid on Common Stock	(247)	(206)
Cash dividends paid on Class B Stock	(5)	(5)
Net change in financing arrangements (maturities 90 days or less)	472	591
Common Stock acquired	(250)	0
Common Stock reissued for exercise of stock options	77	46
Proceeds from the issuance of debt (maturities longer than 90 days)	1,146	1,593
Repayments of debt (maturities longer than 90 days)	(225)	(1,240)
Excess tax benefits from share-based payment arrangements	14	8
Other, net	(59)	(225)
Cash flows from financing activities	1,997	349
Effect of foreign exchange rate changes on cash balances	26	(507)
NET DECREASE IN CASH AND CASH EQUIVALENTS	1,033	(3,623)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,439	18,100
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,472	$ 14,477
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	$ 92	$ 101
Acquisition of UniAsia Life Assurance Berhad (See Note 3):		
Assets acquired, excluding cash and cash equivalents acquired	$ 659	$ 0
Liabilities assumed	589	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 March 31, 2014, include the assets and liabilities of Gibraltar Life and its results of operations as of, and for the three months ended, February 28, 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.

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 should be applied prospectively. Adoption of the guidance did not have a significant effect on the Company s consolidated financial position, results of operations, and 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 is effective for interim or annual reporting periods that begin after December 15, 2013, and should be applied prospectively, with early application permitted. Adoption of the guidance did not have a significant effect on the Company s consolidated financial position, results of operations, and 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 is effective for interim or annual reporting periods that begin after December 15, 2013, and should be applied prospectively. Adoption of the guidance did not have a significant effect on the Company s consolidated financial position, results of operations, and 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

foreign subsidiary, or a loss of control of a foreign investment. The guidance is effective for the first interim or annual reporting period beginning after December 15, 2013, and should be applied prospectively. The amendments 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, and 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 is effective for the first interim or annual reporting period beginning after December 15, 2012, and should be 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 is effective for interim or annual reporting periods beginning on or after January 1, 2013, and should be 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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. This guidance is not expected to have a significant impact on the Company s consolidated financial position, results of operations, or 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.

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 $747 million, including $88 million of cash and cash equivalents and $22 million of goodwill, none of which is deductible for local tax purposes, and total liabilities assumed were $589 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 the UniAsia Life Assurance Berhad were adjusted as of January 2, 2014, to reflect the consequences of the Section 338(g) election.

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 a net retained face amount in force of approximately $141 billion. This acquisition increased the Company s scale in the U.S. individual life insurance market, particularly universal life products, and provided complementary distribution opportunities through expanded wirehouse and bank distribution channels.

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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Discontinued Operations

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in millions)	
Real estate investments sold or held for sale(1)	$ 6	$ 0
Global commodities business	0	2
Income from discontinued operations before income taxes	6	2
Income tax expense	2	1
Income from discontinued operations, net of taxes	$ 4	$ 1

(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:

	March 31, 2014	December 31, 2013
	(in millions)	
Total assets	$ 14	$ 15
Total liabilities	$ 7	$ 7

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:

	March 31, 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	$ 13,485	$ 2,327	$ 24	$ 15,788	$ 0
Obligations of U.S. states and their political subdivisions	4,154	427	60	4,521	0
Foreign government bonds	77,016	7,991	239	84,768	1
Corporate securities	147,194	13,420	2,007	158,607	(2)
Asset-backed securities(1)	10,614	235	223	10,626	(670)
Commercial mortgage-backed securities	14,127	394	107	14,414	0
Residential mortgage-backed securities(2)	6,239	380	22	6,597	(6)
Total fixed maturities, available-for-sale	$ 272,829	$ 25,174	$ 2,682	$ 295,321	$ (677)
Equity securities, available-for-sale	$ 7,291	$ 2,940	$ 40	$ 10,191	

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity				
Foreign government bonds	$ 956	$ 131	$ 0	$ 1,087
Corporate securities(4)	912	57	22	947
Asset-backed securities(1)	674	46	0	720
Commercial mortgage-backed securities	137	14	0	151
Residential mortgage-backed securities(2)	596	36	0	632
Total fixed maturities, held-to-maturity(4)	$ 3,275	$ 284	$ 22	$ 3,537

(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 $872 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 $2,400 million (fair value, $2,555 million) which have been offset with the associated payables under a netting agreement.

	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	

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	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.

The amortized cost and fair value of fixed maturities by contractual maturities at March 31, 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	$ 14,078	$ 14,658	$ 41	$ 41
Due after one year through five years	48,181	52,947	13	13
Due after five years through ten years	55,464	60,487	327	338
Due after ten years(1)	124,126	135,592	1,487	1,642
Asset-backed securities	10,614	10,626	674	720
Commercial mortgage-backed securities	14,127	14,414	137	151
Residential mortgage-backed securities	6,239	6,597	596	632
Total	$ 272,829	$ 295,321	$ 3,275	$ 3,537

(1) Excludes notes with amortized cost of $2,400 million (fair value, $2,555 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 March 31, 2014	2013
	(in millions)	
Fixed maturities, available-for-sale		
Proceeds from sales	$ 8,578	$ 6,495
Proceeds from maturities/repayments	4,859	5,739
Gross investment gains from sales, prepayments, and maturities	425	229
Gross investment losses from sales and maturities	(152)	(106)
Fixed maturities, held-to-maturity		
Gross investment gains from prepayments	$ 0	$ 0
Proceeds from maturities/repayments	94	125
Equity securities, available-for-sale		
Proceeds from sales	$ 1,165	$ 1,048
Gross investment gains from sales	133	107
Gross investment losses from sales	(39)	(23)
Fixed maturity and equity security impairments		
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	$ (16)	$ (70)
Writedowns for impairments on equity securities	(10)	(7)

(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.

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 table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 March 31, 2014	2013
	(in millions)	
Balance, beginning of period	$ 968	$ 1,166
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(140)	(97)
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	2	1
Additional credit loss impairments recognized in the current period on securities previously impaired	4	12
Increases due to the passage of time on previously recorded credit losses	9	12
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(5)	(5)
Balance, end of period	$ 838	$ 1,089

(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:

	March 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 805	$ 805	$ 697	$ 697
Fixed maturities:				
Corporate securities	11,987	12,612	12,109	12,616
Commercial mortgage-backed securities	2,447	2,480	2,417	2,441
Residential mortgage-backed securities(1)	1,824	1,813	1,857	1,830
Asset-backed securities(2)	1,089	1,103	1,096	1,107
Foreign government bonds	599	618	579	596
U.S. government authorities and agencies and obligations of U.S. states	296	342	303	341

Total fixed maturities	18,242	18,968	18,361	18,931
Equity securities	966	1,162	913	1,199
Total trading account assets supporting insurance liabilities	$ 20,013	$ 20,935	$ 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The net change in unrealized gains/(losses) from trading account assets supporting insurance liabilities still held at period end, recorded within Other income , was $66 million and $104 million during the three months ended March 31, 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:

	March 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Short-term investments and cash equivalents	$ 124	$ 126	$ 105	$ 106
Fixed maturities	5,549	5,647	4,653	4,723
Equity securities	991	1,113	1,051	1,177
Other	3	8	3	7
Subtotal	$ 6,667	6,894	$ 5,812	6,013
Derivative instruments		1,127		440
Total other trading account assets		$ 8,021		$ 6,453

The net change in unrealized gains/(losses) from other trading account assets, excluding derivatives instruments, still held at period end, recorded within Other income , was $26 million and $74 million during the three months ended March 31, 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 March 31, 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.

	March 31, 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	$ 60,898	$ 66,958	$ 59,775	$ 65,389
Fixed maturities, held-to-maturity	934	1,063	916	1,032
Trading account assets supporting insurance liabilities	470	479	451	458
Other trading account assets	39	39	38	39
Short-term investments	0	0	0	0
Cash equivalents	382	382	107	107
Total	$ 62,723	$ 68,921	$ 61,287	$ 67,025

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	March 31, 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	$ 6,760	$ 7,409	$ 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	$ 6,821	$ 7,471	$ 6,733	$ 7,338

Commercial Mortgage and Other Loans

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

	March 31, 2014		December 31, 2013	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Commercial and agricultural mortgage loans by property type:				
Office	$ 8,170	20.2%	$ 7,762	19.9%
Retail	8,649	21.4	8,698	22.3
Apartments/Multi-Family	8,357	20.7	7,492	19.2
Industrial	7,537	18.6	7,390	18.9
Hospitality	2,053	5.1	2,050	5.2
Other	3,543	8.8	3,464	8.9
Total commercial mortgage loans	38,309	94.8	36,856	94.4
Agricultural property loans	2,156	5.2	2,183	5.6
Total commercial and agricultural mortgage loans by property type	40,465	100.0%	39,039	100.0%
Valuation allowance	(200)		(195)	
Total net commercial and agricultural mortgage loans by property type	40,265		38,844	
Other loans:				
Uncollateralized loans	1,289		1,306	
Residential property loans	526		544	
Other collateralized loans	331		335	

Total other loans	2,146	2,185
Valuation allowance	(19)	(21)
Total net other loans	2,127	2,164
Total commercial mortgage and other loans(1)	$ 42,392	$ 41,008

(1) Includes loans held at fair value.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The commercial mortgage and agricultural property loans are geographically dispersed throughout the United States, Canada and Asia with the largest concentrations in California (26%), New York (10%), and Texas (8%) at March 31, 2014.

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

	March 31, 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	5	0	0	0	0	5
Charge-offs, net of recoveries	0	0	0	(2)	0	(2)
Change in foreign exchange	0	0	0	0	0	0
Total ending balance	$ 193	$ 7	$ 6	$ 1	$ 12	$ 219

	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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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:

	March 31, 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	$ 19	$ 0	$ 0	$ 1	$ 0	$ 20
Ending balance: collectively evaluated for impairment	174	7	6	0	12	199
Ending balance: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance	$ 193	$ 7	$ 6	$ 1	$ 12	$ 219
Recorded Investment:(1)						
Ending balance gross of reserves: individually evaluated for impairment	$ 385	$ 5	$ 0	$ 4	$ 2	$ 396
Ending balance gross of reserves: collectively evaluated for impairment	37,924	2,151	526	327	1,287	42,215
Ending balance gross of reserves: loans acquired with deteriorated credit quality	0	0	0	0	0	0
Total ending balance, gross of reserves	$ 38,309	$ 2,156	$ 526	$ 331	$ 1,289	$ 42,611

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

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 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:

	March 31, 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	$ 25	$ 26	$ 0	$ 29	$ 0
Agricultural property loans	5	5	0	5	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	$ 30	$ 33	$ 0	$ 34	$ 0
With an allowance recorded:					
Commercial mortgage loans	$ 50	$ 51	$ 19	$ 52	$ 0
Agricultural property loans	0	0	0	0	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	$ 53	$ 54	$ 19	$ 56	$ 0
Total:					
Commercial mortgage loans	$ 75	$ 77	$ 19	$ 81	$ 0
Agricultural property loans	5	5	0	5	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	$ 83	$ 87	$ 19	$ 90	$ 0

(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 of income regardless of when the impairments occurred.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2013				
	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	$ 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 of income regardless of when the impairments occurred.

The net carrying value of commercial and other loans held for sale by the Company as of March 31, 2014 and December 31, 2013, was $124 million and $158 million, respectively. In all these transactions, the Company pre-arranges that it will sell the loan to an investor. As of both March 31, 2014 and December 31, 2013, all of the Company s commercial and other loans held for sale were collateralized, with collateral primarily consisting of office buildings, retail properties, apartment complexes and industrial buildings.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Commercial mortgage loans

	Debt Service Coverage Ratio March 31, 2014			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 19,392	$ 648	$ 289	$ 20,329
60%-69.99%	11,674	442	79	12,195
70%-79.99%	4,213	482	265	4,960
Greater than 80%	476	154	195	825
Total commercial mortgage loans	$ 35,755	$ 1,726	$ 828	$ 38,309

Agricultural property loans

	Debt Service Coverage Ratio March 31, 2014			
	Greater than 1.2X	1.0X to <1.2X	Less than 1.0X	Total
		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 2,005	$ 137	$ 0	$ 2,142
60%-69.99%	14	0	0	14
70%-79.99%	0	0	0	0
Greater than 80%	0	0	0	0
Total agricultural property loans	$ 2,019	$ 137	$ 0	$ 2,156

Total commercial and agricultural mortgage loans

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

		(in millions)		
Loan-to-Value Ratio				
0%-59.99%	$ 21,397	$ 785	$ 289	$ 22,471
60%-69.99%	11,688	442	79	12,209
70%-79.99%	4,213	482	265	4,960
Greater than 80%	476	154	195	825
Total commercial and agricultural mortgage loans	$ 37,774	$ 1,863	$ 828	$ 40,465

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following tables set forth the 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.

	March 31, 2014							
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days - Accruing	Greater Than 90 Days - Not Accruing	Total Past Due	Total Commercial Mortgage and other Loans	Non Accrual Status
	(in millions)							
Commercial mortgage loans	$ 38,248	$ 27	$ 0	$ 0	$ 34	$ 61	$ 38,309	$ 70
Agricultural property loans	2,155	0	0	0	1	1	2,156	2
Residential property loans	502	10	5	0	9	24	526	9
Other collateralized loans	331	0	0	0	0	0	331	3
Uncollateralized loans	1,289	0	0	0	0	0	1,289	3
Total	$ 42,525	$ 37	$ 5	$ 0	$ 44	$ 86	$ 42,611	$ 87

	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 the three months ended March 31, 2014, there were no new commercial mortgage and other loans acquired, other than those through direct origination. Additionally, there were no commercial mortgage and other loans sold, other than those classified as held-for-sale. For the three months ended March 31, 2013, there were $718 million of commercial mortgage and other loans acquired, other than those through direct origination. Additionally, there were no 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 March 31, 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 ended March 31, 2014 and 2013, respectively, there were no new troubled debt restructurings related to commercial mortgage loans, and no payment defaults on commercial mortgage and other loans that were modified as a troubled debt restructuring within the 12 months preceding each respective period. For additional information relating to the accounting for troubled debt restructurings, see Note 2 to the Company s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Investment Income

Net investment income for the three months ended March 31, 2014 and 2013, was from the following sources:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Fixed maturities, available-for-sale	$ 2,617	$ 2,651
Fixed maturities, held-to-maturity	40	31
Equity securities, available-for-sale	84	78
Trading account assets	258	238
Commercial mortgage and other loans	498	490
Policy loans	154	148
Short-term investments and cash equivalents	9	10
Other long-term investments	342	133
Gross investment income	4,002	3,779
Less: investment expenses	(164)	(141)
Net investment income	$ 3,838	$ 3,638

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three months ended March 31, 2014 and 2013, were from the following sources:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Fixed maturities	$ 257	$ 53
Equity securities	85	77
Commercial mortgage and other loans	8	13
Investment real estate	0	0
Joint ventures and limited partnerships	1	(1)
Derivatives(1)	(145)	(870)
Other	2	5

Realized investment gains (losses), net	$ 208	$ (723)

(1) Includes the offset of hedged items in qualifying effective hedge relationships 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:

	March 31, 2014	December 31, 2013
	(in millions)	
Fixed maturity securities on which an OTTI loss has been recognized	$ 194	$ 110
Fixed maturity securities, available-for-sale all other	22,298	18,029
Equity securities, available-for-sale	2,900	2,907
Derivatives designated as cash flow hedges(1)	(475)	(446)
Other investments(2)	9	4
Net unrealized gains (losses) on investments	$ 24,926	$ 20,604

(1) See Note 14 for more information on cash flow hedges.
(2) As of March 31, 2014, includes $14 million of net unrealized losses on held-to-maturity securities that were previously transferred from available-for-sale. Also includes net unrealized gains on certain joint ventures that are strategic in nature and are included in Other assets.

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

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

	March 31, 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	$ 1,641	$ 23	$ 7	$ 1	$ 1,648	$ 24
Obligations of U.S. states and their political subdivisions	1,024	55	46	5	1,070	60
Foreign government bonds	3,203	190	677	49	3,880	239
Corporate securities	21,092	731	14,104	1,298	35,196	2,029
Commercial mortgage-backed securities	2,702	69	726	38	3,428	107
Asset-backed securities	2,432	17	2,380	206	4,812	223

Residential mortgage-backed securities	1,253	18	184	4	1,437	22
Total	$ 33,347	$ 1,103	$ 18,124	$ 1,601	$ 51,471	$ 2,704
Equity securities, available-for-sale	$ 591	$ 40	$ 1	$ 0	$ 592	$ 40

(1) Includes $174 million of fair value and $22 million of gross unrealized losses at March 31, 2014, on securities classified as held-to-maturity, a portion of which are 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 are not reflected in AOCI.

The gross unrealized losses on fixed maturity securities at March 31, 2014 and December 31, 2013, are composed of $2,519 million and $4,178 million related to high or highest quality securities based on the National Association of Insurance Commissioners (NAIC) or equivalent rating and $185 million and $274 million, related to other than high or highest quality securities based on NAIC or equivalent rating, respectively. At March 31, 2014, the $1,601 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. At December 31, 2013, the $2,194 million of gross unrealized losses of twelve months or more were concentrated in 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 March 31, 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 exchange rate movements, general credit spread widening and increased liquidity discounts. At March 31, 2014, the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery of its remaining amortized cost basis.

At March 31, 2014, $15 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 March 31, 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 sells or syndicates 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 VIE s for Which the Company is the Investment Manager		Other Consolidated VIE s	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
	(in millions)			
Fixed maturities, available-for-sale	$ 64	$ 68	$ 112	$ 108
Fixed maturities, held-to-maturity	0	0	888	871
Trading account assets supporting insurance liabilities	0	0	11	11
Other trading account assets	4,685	3,832	0	0
Commercial mortgage and other loans	13	23	300	300
Other long-term investments	0	0	92	87
Cash and cash equivalents	583	566	(4)	(3)
Accrued investment income	23	19	4	4
Other assets	208	132	0	0
Total assets of consolidated VIEs	$ 5,576	$ 4,640	$ 1,403	$ 1,378
Notes issued by consolidated VIEs	$ 4,101	3,302	0	0
Other liabilities	651	631	1	1
Total liabilities of consolidated VIEs	$ 4,752	$ 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 March 31, 2014, the maturities of these obligations were over 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 $2,381 million at both March 31, 2014 and December 31, 2013, 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 $455 million and $489 million at March 31, 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 $9,021 million and $9,426 million as of March 31, 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 $7,258 million and $7,244 million as of March 31, 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 March 31, 2014 and December 31, 2013, the Company recognized a policyholder dividend obligation of $986 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 $4,457 million and $3,624 million at March 31, 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 three months ended March 31, 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:

	March 31, 2014	December 31, 2013
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 50,074	$ 50,258
Policyholders dividends payable	938	907
Policyholders dividend obligation	5,443	4,511
Policyholders account balances	5,345	5,359
Other Closed Block liabilities	4,924	4,281
Total Closed Block Liabilities	66,724	65,316
Closed Block Assets		
Fixed maturities, available-for-sale, at fair value	39,964	39,169
Other trading account assets, at fair value	277	291
Equity securities, available-for-sale, at fair value	3,942	3,884
Commercial mortgage and other loans	9,026	8,762
Policy loans	4,971	5,013
Other long-term investments	2,138	2,085
Short-term investments	1,323	1,790
Total investments	61,641	60,994
Cash and cash equivalents	1,070	544
Accrued investment income	554	542
Other Closed Block assets	516	296
Total Closed Block Assets	63,781	62,376
Excess of reported Closed Block Liabilities over Closed Block Assets	2,943	2,940
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	4,447	3,615
Allocated to policyholder dividend obligation	(4,457)	(3,624)
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 2,933	$ 2,931

Information regarding the policyholder dividend obligation is as follows:

	Three Months Ended March 31, 2014 (in millions)
Balance, January 1	$ 4,511
Impact from earnings allocable to policyholder dividend obligation	99
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	833
Balance, March 31	$ 5,443

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Closed Block revenues and benefits and expenses for the three months ended March 31, 2014 and 2013 were as follows:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Revenues		
Premiums	$ 639	$ 647
Net investment income	721	707
Realized investment gains (losses), net	135	96
Other income	15	10
Total Closed Block revenues	1,510	1,460
Benefits and Expenses		
Policyholders benefits	792	815
Interest credited to policyholders account balances	34	34
Dividends to policyholders	577	503
General and administrative expenses	114	119
Total Closed Block benefits and expenses	1,517	1,471
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	(7)	(11)
Income tax expense (benefit)	(12)	(16)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	5	5
Income from discontinued operations, net of taxes	0	0
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	$ 5	$ 5

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	2.9	(2.9)	0.0
Stock-based compensation programs(1)	0.0	(2.2)	2.2	0.0
Balance, March 31, 2014	660.1	199.7	460.4	2.0

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, 2014. As of March 31, 2014, 9.0 million shares of the Company s Common Stock were repurchased under this authorization at a total cost of $750 million, of which 2.9 million shares were repurchased in the first three months of 2014 at a total cost of $250 million.

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 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 three months ended March 31, 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	73	3,400	1	3,474
Amounts reclassified from AOCI	0	(332)	22	(310)
Income tax benefit (expense)	(27)	(1,010)	(10)	(1,047)
Balance, March 31, 2014	$ (67)	$ 12,402	$ (1,537)	$ 10,798

	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, 2012	$ 928	$ 11,402	$ (2,116)	$ 10,214
Change in other comprehensive income before reclassifications	(902)	4,452	19	3,569
Amounts reclassified from AOCI	1	(174)	31	(142)
Income tax benefit (expense)	269	(1,474)	(18)	(1,223)
Balance, March 31, 2013	$ 296	$ 14,206	$ (2,084)	$ 12,418

(1) Includes cash flow hedges of $(475) million and $(446) million as of March 31, 2014 and December 31, 2013, respectively, and $(79) million and $(257) million as of March 31, 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 March 31, 2014	2013	Affected line item in Consolidated Statements of Operations
	(in millions)		
Amounts reclassified from AOCI (1)(2):			
Foreign currency translation adjustment:			
Foreign currency translation adjustment	$ 0	$ (1)	Realized investment gains (losses), net
Total foreign currency translation adjustment	0	(1)	
Net unrealized investment gains (losses):			
Cash flow hedges Interest Rate	(6)	(4)	(3)
Cash flow hedges Currency/Interest rate	(4)	(18)	(3)
Net unrealized investment gains (losses) on available-for-sale securities	342	130	
Net unrealized investment gains (losses) all other	0	66	
Total net unrealized investment gains (losses)	332	174	(4)
Amortization of defined benefit pension items:			
Prior service cost	6	6	(5)
Actuarial gain (loss)	(28)	(37)	(5)
Total amortization of defined benefit pension items	(22)	(31)	
Total reclassifications for the period	$ 310	$ 142	

(1) All amounts are shown before tax.
(2) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.
(3) See Note 14 for additional information on cash flow hedges.
(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition and other costs, future policy benefits and policyholders dividends.
(5) See Note 10 for information on employee benefit plans.

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains and losses on securities classified as available-for-sale and certain other long-term investments and other assets are included in the Company s Unaudited Interim Consolidated Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from Other comprehensive income (loss) those items that are included as part of Net income for a period that had been part of Other comprehensive income (loss) in earlier periods. The amounts

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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	65				(23)	42
Reclassification adjustment for (gains) losses included in net income	18				(6)	12
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		0			0	0
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			(2)		1	(1)
Impact of net unrealized investment (gains) losses on policyholders dividends				(76)	27	(49)
Balance, March 31, 2014	$ 194	$ (5)	$ 2	$ (12)	$ (61)	$ 118

(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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PRUDENTIAL FINANCIAL, INC.

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 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	$ 20,494	$ (719)	$ (679)	$ (3,694)	$ (5,171)	$ 10,231
Net investment gains (losses) on investments arising during the period	4,589				(1,544)	3,045
Reclassification adjustment for (gains) losses included in net income	(350)				123	(227)
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		(137)			48	(89)
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders account balances			(283)		100	(183)
Impact of net unrealized investment (gains) losses on policyholders dividends				(756)	264	(492)
Balance, March 31, 2014	$ 24,732	$ (856)	$ (962)	$ (4,450)	$ (6,180)	$ 12,284

(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 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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 for the three months ended March 31, is as follows:

	Three Months Ended March 31,					
	2014			2013		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic and diluted earnings per share(1)						
Income (loss) from continuing operations attributable to the Financial Services Businesses	$ 1,232			$ (701)		
Direct equity adjustment	(2)			4		
Less: Income (loss) attributable to noncontrolling interests	11			35		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	11			2		
Income (loss) from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 1,208	460.9	$ 2.62	$ (734)	464.3	$ (1.58)
Effect of dilutive securities and compensation programs(1)						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Basic	$ 11			$ 2		
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards Diluted	11			2		
Stock options		3.3			0.0	
Deferred and long-term compensation programs		0.7			0.0	
Exchangeable Surplus Notes	4	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	$ 1,212	470.3	$ 2.58	$ (734)	464.3	$ (1.58)

(1) For the three months ended March 31, 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

reported. As a result of the loss from continuing operations available to holders of Common Stock after direct equity adjustment for the three months ended March 31, 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, Inc. 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 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. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended March 31, 2014 and 2013, as applicable, were based on 4.3 million and 4.4 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 months ended March 31, 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 March 31,			
	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	2.0	$ 90.34	13.4	$ 69.42
Antidilutive stock options due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		7.0	
Antidilutive shares due to loss from continuing operations available to holders of Common Stock after direct equity adjustment	0.0		5.1	
Total antidilutive stock options and shares	2.0		25.5	

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 months ended March 31, are presented below. There are no potentially dilutive shares associated with the Class B Stock.

	Three Months Ended March 31,					
	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	$ 13			$ 15		
Less: Direct equity adjustment	(2)			4		
Income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	$ 15	2.0	$ 7.50	$ 11	2.0	$ 5.50

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:

	March 31, 2014	December 31, 2013
	(in millions)	
Commercial paper:		
Prudential Financial	$ 226	$ 190
Prudential Funding, LLC	747	460
Subtotal commercial paper	973	650
Other notes payable	316	0
Current portion of long-term debt(1)	2,730	2,019
Total short-term debt(2)	$ 4,019	$ 2,669
Supplemental short-term debt information:		
Portion of commercial paper borrowings due overnight	$ 502	$ 466
Daily average commercial paper outstanding	$ 1,143	$ 1,309
Weighted average maturity of outstanding commercial paper, in days	22	18
Weighted average interest rate on outstanding short-term debt(3)	0.21%	0.17%

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(1) Includes limited and non-recourse borrowings of Prudential Holdings, LLC attributable to the Closed Block Business of $75 million at both March 31, 2014 and December 31, 2013.
(2) Includes Prudential Financial debt of $2,778 million and $1,721 million at March 31, 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 been generally used to fund the working capital needs of Prudential Financial s subsidiaries and provide short-term liquidity at Prudential Financial.

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

Federal Home Loan Bank of New York

Prudential Insurance is a member of the Federal Home Loan Bank of New York (FHLBNY). Membership allows Prudential Insurance access to the FHLBNY s financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements. Under applicable law, the funding agreements issued to the FHLBNY have priority claim status above debt holders of Prudential Insurance. FHLBNY borrowings and funding agreements are collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings. FHLBNY membership requires Prudential Insurance to own member stock and borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, if 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, of which $2.2 billion was outstanding. Nevertheless, FHLBNY borrowings are subject to the FHLBNY s discretion and to the availability of qualifying assets at Prudential Insurance.

As of March 31, 2014, Prudential Insurance had pledged assets with a fair value of $2.7 billion supporting aggregate outstanding collateralized advances and collateralized funding agreements. As of March 31, 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 $3.3 billion as of March 31, 2014.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company (PRIAC) is a member of the Federal Home Loan Bank of Boston (FHLBB). Membership allows PRIAC access to collateralized advances which will be classified in Short-term debt or Long-term debt, depending on the maturity date of the obligation. PRIAC s membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings depending on the maturity date of the obligation. As of March 31, 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, none of which was outstanding as of March 31, 2014.

Credit Facilities

The Company s syndicated, unsecured committed credit facilities at March 31, 2014 are as follow:

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

(1) In November 2013, amendments to these facilities extended their terms by approximately 2 years. The expiration dates above reflect that extension.

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 March 31, 2014, there were no outstanding borrowings under either credit facility. Prudential Financial expects that it may continue to 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 March 31, 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

There were no material issuances, maturities or redemptions of long-term debt during the first quarter of 2014. For further information on the Company s long-term debt obligations, see Note 14 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

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.

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 March 31,			
	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 59	$ 65	$ 4	$ 4
Interest cost	120	110	24	22
Expected return on plan assets	(177)	(192)	(29)	(21)
Amortization of prior service cost	(3)	(3)	(3)	(3)
Amortization of actuarial (gain) loss, net	21	23	7	14
Settlements	1	0	0	0
Special termination benefits	0	2	0	0
Net periodic (benefit) cost	$ 21	$ 5	$ 3	$ 16

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 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 March 31,	
	2014(1)	2013(1)
	(in millions)	
Net gains (losses) from:		
Terminated hedges of foreign currency earnings	$ 78	$ 36
Current period yield adjustments	$ 124	$ 102
Principal source of earnings	$ 14	$ 26

(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.

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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 $18 million for both the three months ended March 31, 2014 and 2013. Additionally, as of March 31, 2014, there was a $410 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.

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 March 31,	
	2014	2013
	(in millions)	
Net gains (losses) from:		
Other trading account assets	$ 22	$ 49
Foreign currency exchange movements	$ 231	$ (2,465)
Other activities	$ 4	$ 111

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, under U.S. GAAP, 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), 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. In the first quarters of 2014 and 2013, the Company recorded $7 million and $117 million, respectively in estimated recoveries related to this matter, which is 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 associated with certain derivatives. These adjustments are recorded within Other income. Consistent with the exclusion of the mark-to-market on derivatives recorded in Realized investment gains (losses), net , the impact of these risks is excluded from adjusted operating income. The net impact of these risks was to exclude from adjusted operating income net losses of $2 million for both the three months ended March 31, 2014 and 2013.

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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

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 March 31, 2014	Three Months Ended March 31, 2013
	(in millions)	
Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:		
Individual Annuities	$ 388	$ 372
Retirement	364	228
Asset Management	193	169
Total U.S. Retirement Solutions and Investment Management Division	945	769
Individual Life	125	137
Group Insurance	6	9
Total U.S. Individual Life and Group Insurance Division	131	146
International Insurance	837	877
Total International Insurance Division	837	877
Corporate Operations	(342)	(314)
Total Corporate and Other	(342)	(314)
Adjusted Operating Income before income taxes for Financial Services Businesses	1,571	1,478
Reconciling items:		
Realized investment gains (losses), net, and related adjustments	49	(3,305)
Charges related to realized investment gains (losses), net	(57)	302
Investment gains (losses) on trading account assets supporting insurance liabilities, net	101	95
Change in experience-rated contractholder liabilities due to asset value changes	(43)	(143)
Divested businesses	73	29
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	11	(34)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,705	(1,578)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business	13	19
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,718	$ (1,559)

The U.S. Retirement Solutions and Investment Management Division 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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Revenue Three Months Ended March 31, 2014	Revenue Three Months Ended March 31, 2013	Total Assets March 31, 2014	Total Assets December 31, 2013
	(in millions)			
Financial Services Businesses:				
Individual Annuities	$ 1,157	$ 1,068	$ 164,533	$ 160,778
Retirement	1,531	1,336	173,596	170,762
Asset Management	667	642	46,046	45,040
Total U.S. Retirement Solutions and Investment Management Division	3,355	3,046	384,175	376,580
Individual Life	1,296	1,155	67,241	64,990
Group Insurance	1,362	1,402	39,353	39,185
Total U.S. Individual Life and Group Insurance Division	2,658	2,557	106,594	104,175
International Insurance	5,075	6,350	174,306	168,677
Total International Insurance Division	5,075	6,350	174,306	168,677
Corporate Operations	(152)	(153)	11,724	13,947
Total Corporate and Other	(152)	(153)	11,724	13,947
Total	10,936	11,800	676,799	663,379
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	49	(3,305)		
Charges related to realized investment gains (losses), net	(8)	(69)		
Investment gains (losses) on trading account assets supporting insurance liabilities, net	101	95		
Divested businesses	210	199		
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	0	(68)		
Total Financial Services Businesses	11,288	8,652	676,799	663,379
Closed Block Business	1,566	1,519	69,936	68,402
Total per Unaudited Interim Consolidated Financial Statements	$ 12,854	$ 10,171	$ 746,735	$ 731,781

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

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Asset Management segment intersegment revenues	$ 156	$ 150

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

12. INCOME TAXES

The Company s liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service (IRS) or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards (tax attributes), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes.

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

Listed below are the tax years that remain subject to examination by major tax jurisdiction, at March 31, 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 and expected business results. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts, and the Company s taxable income before the DRD.

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 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. 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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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. These activities had no impact on the Company s 2013 or first quarter 2014 results.

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 contemporaneously during these tax years in order to reach agreement with the Company on how they should be reported in the tax returns. If disagreements arise, accelerated resolutions programs are available to resolve the disagreements in a timely manner before the tax returns are filed. It is management s expectation this program will shorten the time period between the filing of the Company s federal income tax returns and the IRS s completion of its examination of the returns.

Total income tax expense includes additional tax expense related to the realization of deferred tax assets recorded in the Statement of Financial Position as of the acquisition date for 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 March 31, 2014, additional U.S. GAAP tax expense related to the utilization of opening balance sheet deferred tax assets has been recognized between the Statement of Operations and Other Comprehensive Income as follows:

	Prudential Gibraltar	Star and Edison Businesses	Total
		(in millions)	
Opening balance sheet deferred tax assets after valuation allowance that will result in additional tax expense (benefit)	$ 56	$ 678	$ 734
Additional 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
Three months ended March 31, 2014	0	17	17
Subtotal	56	642	698
Additional tax expense (benefit) recognized in Other Comprehensive Income	0	0	0
Unrecognized balance of additional tax expense (benefit)	$ 0	$ 36	$ 36

On January 1, 2012, the Star and Edison Businesses merged into Gibraltar Life. The majority of additional U.S. tax expense recognized in 2012 is a result of the merger. During 2013, the Company changed its repatriation assumption for Gibraltar Life and Prudential Gibraltar. As a result, the Company recorded an additional U.S. tax expense of $108 million in the first quarter 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 tax expense recognized in the Consolidated Statements of Operations and increase the amount of additional 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 March 31, 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	$ 15,788	$ 0	$	$ 15,788
Obligations of U.S. states and their political subdivisions	0	4,521	0		4,521
Foreign government bonds	0	84,766	2		84,768
Corporate securities	0	157,275	1,332		158,607
Asset-backed securities	0	6,571	4,055		10,626
Commercial mortgage-backed securities	0	13,865	549		14,414
Residential mortgage-backed securities	0	6,589	8		6,597
Subtotal	0	289,375	5,946		295,321
Trading account assets:(2)					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	288	0		288
Obligations of U.S. states and their political subdivisions	0	185	0		185
Foreign government bonds	0	660	5		665
Corporate securities	0	17,766	121		17,887
Asset-backed securities	0	879	397		1,276
Commercial mortgage-backed securities	0	2,449	51		2,500
Residential mortgage-backed securities	0	1,812	2		1,814
Equity securities	1,283	221	771		2,275
All other(3)	784	8,302	7	(7,027)	2,066
Subtotal	2,067	32,562	1,354	(7,027)	28,956
Equity securities, available-for-sale	7,064	2,817	310		10,191
Commercial mortgage and other loans	0	124	0		124
Other long-term investments	29	148	1,368	(7)	1,538
Short-term investments	5,056	409	0		5,465
Cash equivalents	3,440	4,076	0		7,516
Other assets	3	218	4		225
Subtotal excluding separate account assets	17,659	329,729	8,982	(7,034)	349,336
Separate account assets(4)	50,141	215,023	22,997		288,161
Total assets	$ 67,800	$ 544,752	$ 31,979	$ (7,034)	$ 637,497
Future policy benefits(5)	$ 0	$ 0	$ 2,443	$	$ 2,443
Other liabilities	2	8,016	6	(6,916)	1,108
Notes of consolidated VIEs	0	0	4,062		4,062

Total liabilities	$	2	$	8,016	$	6,511	$	(6,916)	$	7,613

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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 $118 million and ($16) million as of March 31, 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.

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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 March 31, 2014, the net embedded derivative liability position of $2.4 billion includes $1.0 billion of embedded derivatives in an asset position and $3.4 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 March 31, 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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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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, 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 (or 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, non-performance risk, 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 non-performance risk, 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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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 risk of its own non-performance (NPR), as well as actuarially determined assumptions, including contractholder behavior, such as lapse rates, benefit utilization rates, withdrawal rates, and mortality rates. 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 March 31, 2014, $0.1 billion were transferred from Level 1 to Level 2. During the three months ended March 31, 2013, $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 March 31, 2014		
	Internal(1)	External(2) (in millions)	Total
Foreign government bonds	$ 0	$ 7	$ 7
Corporate securities	693	760	1,453
Asset-backed securities	281	4,171	4,452
Commercial mortgage-backed securities	172	428	600
Residential mortgage-backed securities	3	7	10
Equity securities	140	941	1,081
Other long-term investments	1	1,367	1,368
Other assets	11	0	11
Subtotal excluding separate account assets(3)	1,301	7,681	8,982
Separate account assets	22,122	875	22,997
Total assets	$ 23,423	$ 8,556	$ 31,979
Future policy benefits	$ 2,443	$ 0	$ 2,443
Other liabilities	2	4	6
Notes of consolidated VIEs	0	4,062	4,062
Total liabilities	$ 2,445	$ 4,066	$ 6,511

	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 March 31, 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	$ 693	Discounted cash flow	Discount rate	1.18%	-	15%	9.98%	Decrease
		Market comparables	EBITDA multiples(2)	4.0X	-	8.0X	5.69X	Increase
		Liquidation	Liquidation value	18.73%	-	100.0%	67.97%	Increase
Asset-backed securities	$ 281	Discounted cash flow	Prepayment rate(3)	2.82%	-	28.03%	6.54%	Increase
			Default rate(3)	0.49%	-	14.94%	1.58%	Decrease
			Loss severity(3)	18.32%	-	45.00%	26.60%	Decrease
			Liquidity premium	1.00%	-	2.00%	1.90%	Decrease
			Average life (years)	0.43	-	14.62	5.24	Increase
			Comparable spreads	0.11%	-	11.17%	2.09%	Decrease
			Comparable security yields	0.71%	-	10.00%	6.06%	Decrease
Liabilities:								
Future policy benefits(4)	$ 2,443	Discounted cash flow	Lapse rate(5)	0%	-	11%		Decrease
			NPR spread(6)	0.05%	-	1.01%		Decrease
			Utilization rate(7)	70%	-	98%		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)

	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

(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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 unobservable contractholder behavior inputs related to the liability for the optional living benefit features of the Company s variable annuity contracts included in future policy benefits are generally based on emerging experience, future expectations and other data. While experience for these products is still emerging, 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. The dynamic lapse adjustment assumes lower lapses when the benefit amount is greater than the account value, as in-the-money contracts are less likely to lapse. Therefore, to the extent more efficient contractholder behavior results in greater in-the-moneyness at the contract level, the dynamic lapse function will reduce lapse rates for those contracts. Similarly, to the extent that increases in equity volatility are correlated with overall declines in the capital markets, the dynamic lapse function will lower overall lapse rates 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 $21,254 million and $20,806 million of investments in real estate as of March 31, 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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

capitalization rates, which ranged from 4.50% to 9.75% (6.17% weighted average) as of March 31, 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% (7.52% weighted average) as of March 31, 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 1.78% to 6.58% (4.18% weighted average) as of March 31, 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 1.65% to 4.83% (2.78% weighted average) as of March 31, 2014, and 1.60% to 4.75% (2.87% weighted average) as of December 31, 2013.

Commercial Mortgage Loans Separate account assets include $798 million and $793 million of commercial mortgage loans as of March 31, 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 1.15% to 1.87% (1.37% weighted average) as of March 31, 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.

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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended March 31, 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	(5)	3	0	0
Included in other comprehensive income (loss)	0	0	0	47	3	(1)	0
Net investment income	0	0	0	1	5	0	0
Purchases	0	0	1	106	416	496	0
Sales	0	0	0	(87)	(4)	0	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	0	(32)	(196)	(3)	0
Foreign currency translation	0	0	0	4	2	0	0
Transfers into Level 3(2)	0	0	0	4	676	0	0
Transfers out of Level 3(2)	0	0	0	(35)	(292)	(108)	0
Fair Value, end of period	$ 0	$ 0	$ 2	$ 1,332	$ 4,055	$ 549	$ 8
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ (5)	$ 0	$ 0	$ 0

	Three Months Ended March 31, 2014 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	$ 115	$ 403	$ 0	$ 2	$ 842	$ 6
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	(1)	0
Other income	0	4	1	0	0	(1)	1
Purchases	0	10	0	51	0	5	0
Sales	0	(5)	0	0	0	(8)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(3)	(13)	0	0	(71)	0
Foreign currency translation	0	0	0	0	0	5	0
Transfers into Level 3(2)	0	0	23	0	0	0	0

Transfers out of Level 3(2)	0	0	(17)	0	0	0	0
Fair Value, end of period	$ 0	$ 121	$ 397	$ 51	$ 2	$ 771	$ 7
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ (1)	$ 0
Other income	$ 0	$ 4	$ 1	$ 0	$ 0	$ (1)	$ 1

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended March 31, 2014			
	Equity Securities Available-For-Sale	Commercial Mortgage and Other Loans	Other Long-term Investments	Other Assets
	(in millions)			
Fair Value, beginning of period	$ 304	$ 0	$ 1,396	$ 4
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	2	0	(6)	0
Other income	0	0	20	0
Included in other comprehensive income (loss)	16	0	0	0
Net investment income	0	0	1	0
Purchases	3	0	9	0
Sales	(12)	0	0	0
Issuances	0	0	0	0
Settlements	0	0	(17)	0
Foreign currency translation	1	0	2	0
Other(1)	1	0	(37)	0
Transfers into Level 3(2)	0	0	0	0
Transfers out of Level 3(2)	(5)	0	0	0
Fair Value, end of period	$ 310	$ 0	$ 1,368	$ 4
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ (1)	$ 0	$ (8)	$ 0
Other income	$ 0	$ 0	$ 19	$ 0

	Three Months Ended March 31, 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	3	(1,782)	1	(4)
Interest credited to policyholders account balances	603	0	0	0
Net investment income	6	0	0	0
Purchases	308	0	0	0
Sales	(179)	0	0	0
Issuances	0	(220)	0	(804)
Settlements	(277)	0	0	0
Other(1)	0	0	(2)	0
Transfers into Level 3(2)	0	0	0	0
Transfers out of Level 3(2)	(70)	0	0	0
Fair Value, end of period	$ 22,997	$ (2,443)	$ (6)	$ (4,062)

Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ (2,224)	$ 1	$ (4)
Interest credited to policyholders account	$ 367	$ 0	$ 0	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended March 31, 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	(9)	5	0	0
Included in other comprehensive income (loss)	0	0	0	38	16	(1)	0
Net investment income	0	0	0	1	12	0	0
Purchases	0	0	4	220	531	88	0
Sales	0	0	(1)	(42)	(40)	(3)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	0	(2)	(186)	(376)	(27)	(1)
Foreign currency translation	0	0	0	(63)	(62)	(6)	0
Transfers into Level 3(2)	0	0	0	5	8	0	0
Transfers out of Level 3(2)	0	0	0	(12)	0	0	0
Fair Value, end of period	$ 0	$ 0	$ 1	$ 1,582	$ 3,797	$ 175	$ 10
Unrealized gains (losses) for assets still held(3):							
Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 4	$ 0	$ 0

	Three Months Ended March 31, 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	$ 431	$ 8	$ 2	$ 1,098	$ 25
Total gains (losses) (realized/unrealized):							
Included in earnings:							
Realized investment gains (losses), net	0	0	0	0	0	0	(11)
Other income	0	(2)	1	0	0	23	1
Net investment income	0	0	1	0	0	0	0
Purchases	0	0	46	27	0	4	0
Sales	0	(2)	(1)	(1)	0	(41)	0
Issuances	0	0	0	0	0	0	0
Settlements	0	(28)	(88)	(1)	0	(1)	0
Foreign currency translation	0	0	(5)	(1)	0	(85)	0
Transfers into Level 3(2)	0	0	1	0	0	0	0
Transfers out of Level 3(2)	0	0	(1)	(1)	0	0	0
Fair Value, end of period	$ 0	$ 102	$ 385	$ 31	$ 2	$ 998	$ 15
Unrealized gains (losses) for assets still held(3):							

Included in earnings:							
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ (11)
Other income	$ 0	$ (2)	$ 2	$ 0	$ 0	$ 22	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended March 31, 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	(2)	0	(1)	(2)
Other income	0	0	35	0
Included in other comprehensive income (loss)	36	0	0	0
Purchases	2	0	27	0
Sales	(14)	0	(41)	0
Issuances	0	0	0	0
Settlements	0	0	(61)	0
Foreign currency translation	(28)	0	(1)	0
Other(1)	(18)	0	26	0
Transfers into Level 3(2)	0	0	0	0
Transfers out of Level 3(2)	(4)	0	0	0
Fair Value, end of period	$ 302	$ 48	$ 1,037	$ 6
Unrealized gains (losses) for assets/liabilities still held(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 0	$ (2)	$ (2)
Other income	$ 0	$ 0	$ 26	$ 0

	Three Months Ended March 31, 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	1,644	0	(2)
Interest credited to policyholders account balances	548	0	0	0
Purchases	198	0	0	0
Sales	(60)	0	0	0
Issuances	0	(198)	0	(349)
Settlements	(802)	0	0	(11)
Foreign currency translation	0	2	0	0
Transfers into Level 3(2)	2	0	0	0
Transfers out of Level 3(2)	(34)	0	0	0
Fair Value, end of period	$ 20,984	$ (1,900)	$ 0	$ (1,768)

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

Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 1,625	$ 0	$ (2)
Interest credited to policyholders account	$ 331	$ 0	$ 0	$ 0

(1) For the three months ended March 31, 2014, Other primarily represents reclassifications of certain assets between reporting categories. For the three months ended March 31, 2013, Other primarily represents the impact of consolidation and deconsolidation of funds.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(2) 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.
(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 utilization of pricing service information for certain assets that the Company is able to validate.

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 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	As of March 31, 2014				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
Derivative assets:					
Interest Rate	$ 9	$ 6,756	$ 9	$ 0	$ 6,774
Currency	0	436	0	0	436
Credit	0	4	0	0	4
Currency/Interest Rate	0	628	0	0	628
Equity	12	396	0	0	408
Commodity	1	0	0	0	1
Netting(1)	0	0	0	(7,034)	(7,034)
Total derivative assets	$ 22	$ 8,220	$ 9	$ (7,034)	$ 1,217
Derivative liabilities:					
Interest Rate	$ 1	$ 6,512	$ 4	$ 0	$ 6,517
Currency	0	193	0	0	193
Credit	0	41	0	0	41
Currency/Interest Rate	0	915	0	0	915
Equity	1	237	0	0	238
Commodity	1	0	0	0	1
Netting(1)	0	0	0	(6,916)	(6,916)
Total derivative liabilities	$ 3	$ 7,898	$ 4	$ (6,916)	$ 989

	As of December 31, 2013				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
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 months ended March 31, 2014, as well as the portion of gains or losses included in income for the three months ended March 31, 2014, attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2014.

	Three Months Ended March 31, 2014	
	Derivative Assets-Equity	Derivative Assets-Interest Rate
	(in millions)	
Fair Value, beginning of period	$0	$3
Total gains (losses) (realized/unrealized):		
Included in earnings:		
Realized investment gains (losses), net	0	2
Other income	0	0
Purchases	0	0
Sales	0	0
Issuances	0	0
Settlements	0	0
Transfers into Level 3(1)	0	0
Transfers out of Level 3(1)	0	0
Fair Value, end of period	$0	$5
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	$0	$2
Other income	$0	$0

	Three Months Ended March 31, 2013	
	Derivative Assets-Equity	Derivative Assets-Interest Rate
	(in millions)	
Fair Value, beginning of period	$ 19	$ 3
Total gains (losses) (realized/unrealized):		
Included in earnings:		
Realized investment gains (losses), net	(9)	(1)
Other income	0	0
Purchases	(1)	0
Sales	0	0
Issuances	0	0
Settlements	0	0
Transfers into Level 3(1)	0	0
Transfers out of Level 3(1)	0	0
Fair Value, end of period	$ 9	$ 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	$ (9)	$ (1)
Other income	$ 0	$ 0

(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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Nonrecurring Fair Value Measurements Certain assets and liabilities are measured at fair value on a nonrecurring basis. There were no nonrecurring fair value reserve adjustments for the three months ended March 31, 2014 on certain commercial mortgage loans. The carrying value of these loans as of March 31, 2014 was $14 million. Similar commercial mortgage loan reserve adjustments resulted in a net loss of $1 million for the three months ended March 31, 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 months ended March 31, 2014 and 2013, respectively.

For mortgage servicing rights, valuation reserve decreases of $4 million and $1 million were recorded for the three months ended March 31, 2014 and 2013, respectively. Mortgage servicing rights are revalued based on internal models and classified as Level 3 in the valuation hierarchy. There were no impairments for the three months ended March 31, 2014 and 2013, respectively on real estate held for investment. For certain cost method investments, there were no impairments recorded for the three months ended March 31, 2014. Impairments of $3 million were recorded for the three months ended March 31, 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 March 31,	
	2014	2013
	(in millions)	
Assets:		
Commercial mortgage loans:		
Changes in instrument-specific credit risk	$ 0	$ 0
Other changes in fair value	0	0
Other long-term investments:		
Changes in fair value	18	22
Liabilities:		
Notes issued by consolidated variable interest entities:		
Changes in fair value	4	2

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. For the three months ended March 31, 2014 and 2013, the Company recorded $2 million and $3 million of interest income, respectively, on these 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 $124 million and $122 million, respectively, as of March 31, 2014, and

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

$158 million and $154 million, respectively, as December 31, 2013. As of March 31, 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 were $885 million and $873 million as of March 31, 2014 and December 31, 2013, respectively.

The fair value and aggregate contractual principal amounts of notes issued by consolidated variable interest entities, for which the fair value option has been elected, were $4,062 million and $4,108 million, respectively, as of March 31, 2014 and $3,254 million and $3,276 million, respectively, as December 31, 2013. Interest expense recorded for these liabilities was $40 million and $17 million for the three months ended March 31, 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.

	March 31, 2014					December 31, 2013	
	Fair Value				Carrying Amount(1)	Fair Value	Carrying Amount
	Level 1	Level 2	Level 3	Total	Total	Total	Total
				(in millions)			
Assets:							
Fixed maturities, held-to-maturity	$ 0	$ 2,053	$ 1,484	$ 3,537	$ 3,275	$ 3,553	$ 3,312
Commercial mortgage and other loans	0	642	43,313	43,955	42,268	42,649	40,850
Policy loans	0	0	11,833	11,833	11,833	11,766	11,766
Other long-term investments	0	0	2,438	2,438	2,120	2,470	2,203
Short-term investments	0	558	0	558	558	518	518
Cash and cash equivalents	4,040	914	0	4,954	4,954	4,457	4,457
Accrued investment income	0	3,134	0	3,134	3,134	3,089	3,089
Other assets	46	2,673	167	2,886	2,886	2,561	2,561
Total assets	$ 4,086	$ 9,974	$ 59,235	$ 73,295	$ 71,028	$ 71,063	$ 68,756
Liabilities:							
Policyholders account balances -investment contracts	$ 0	$ 39,586	$ 57,687	$ 97,273	$ 95,872	$ 96,600	$ 95,476
Securities sold under agreements to repurchase	0	8,348	0	8,348	8,348	7,898	7,898
Cash collateral for loaned securities	0	5,282	0	5,282	5,282	5,040	5,040
Short-term debt	0	4,083	0	4,083	4,019	2,718	2,669

Long-term debt	1,206	18,709	5,114	25,029	22,565	25,569	23,553
Notes of consolidated VIEs	0	0	31	31	39	39	48
Other liabilities	0	6,055	180	6,235	6,235	6,069	6,069
Separate account liabilities-investment contracts	0	82,673	22,669	105,342	105,342	104,234	104,234
Total liabilities	$ 1,206	$ 164,736	$ 85,681	$ 251,623	$ 247,702	$ 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.

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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 March 31, 2014 and December 31, 2013.

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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 non-performance risk. 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 non-performance risk. 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 non-performance risk.

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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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.

The Company invests in fixed maturities that, in addition to a stated coupon, provide a return based upon the results of an underlying portfolio of fixed income investments and related investment activity. The Company accounts 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.

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 and cash collateral held with the same counterparty. This netting impact results in total derivative assets of $1,217 million and $533 million as of March 31, 2014 and December 31, 2013, respectively, and total derivative liabilities of $989 million and $2,156 million as of March 31, 2014 and December 31, 2013, respectively, reflected in the Unaudited Interim Consolidated Statement of Financial Position.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Primary Underlying/Instrument Type	March 31, 2014 Notional(1)	March 31, 2014 Gross Fair Value Assets	March 31, 2014 Gross Fair Value Liabilities	December 31, 2013 Notional(1)(2)	December 31, 2013 Gross Fair Value Assets(2)	December 31, 2013 Gross Fair Value Liabilities(2)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$ 2,143	$ 23	$ (255)	$ 2,556	$ 26	$ (253)
Foreign Currency						
Foreign Currency Forwards	572	1	(27)	534	1	(32)
Currency/Interest Rate						
Foreign Currency Swaps	10,184	234	(608)	9,502	233	(553)
Total Qualifying Hedges	$ 12,899	$ 258	$ (890)	$ 12,592	$ 260	$ (838)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	$ 172,617	$ 6,447	$ (5,987)	$ 171,337	$ 5,727	$ (7,051)
Interest Rate Futures	28,823	6	(1)	34,424	10	(5)
Interest Rate Options	24,063	292	(273)	25,308	370	(297)
Interest Rate Forwards	3,257	0	(3)	1,452	0	(6)
Foreign Currency						
Foreign Currency Forwards	15,076	432	(167)	13,122	587	(393)
Foreign Currency Options	118	4	0	118	5	0
Currency/Interest Rate						
Foreign Currency Swaps	8,297	395	(306)	7,787	414	(304)
Credit						
Credit Default Swaps	1,832	3	(41)	1,890	3	(49)
Equity						
Equity Futures	185	1	(1)	262	1	(1)
Equity Options	73,922	388	(28)	61,231	388	(12)
Total Return Swaps	12,789	18	(208)	11,554	1	(462)
Commodity						
Commodity Futures	46	1	(1)	37	1	0
Synthetic GIC s(3)	78,035	9	0	78,110	8	0
Total Non-Qualifying Derivatives(4)	$ 419,060	$ 7,996	$ (7,016)	$ 406,632	$ 7,515	$ (8,580)
Total Derivatives(5)	$ 431,959	$ 8,254	$ (7,906)	$ 419,224	$ 7,775	$ (9,418)

(1) Notional amounts are presented on a gross basis and include derivatives used to offset existing positions.
(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 to $78,110 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 (GIC s), 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 $2,419 million as of March 31, 2014 and a net liability of $430 million as of December 31, 2013, included in "Future policy benefits" and "Fixed maturities, available-for-sale."

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

	March 31, 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	Financial Instruments/ Collateral	Net Amount
	(in millions)				
Offsetting of Financial Assets:					
Derivatives	$ 8,186	$ (7,034)	$ 1,152	$ (1,410)	$ (258)
Securities purchased under agreement to resell	795	0	795	(795)	0
Total Assets	$ 8,981	$ (7,034)	$ 1,947	$ (2,205)	$ (258)
Offsetting of Financial Liabilities:					
Derivatives	$ 7,893	$ (6,916)	$ 977	$ (928)	$ 49
Securities sold under agreement to repurchase	8,348	0	8,348	(8,348)	0
Total Liabilities	$ 16,241	$ (6,916)	$ 9,325	$ (9,276)	$ 49

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 March 31, 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	$ (5)	$ (16)	$ 0	$ 0	$ 2	$ 0
Currency	2	0	0	0	0	0
Total fair value hedges	(3)	(16)	0	0	2	0
Cash flow hedges						
Interest Rate	0	0	0	(6)	0	2
Currency/Interest Rate	0	2	(5)	0	0	(30)
Total cash flow hedges	0	2	(5)	(6)	0	(28)
Net investment hedges						
Currency(2)	0	0	0	0	0	0
Currency/Interest Rate	0	0	0	0	0	(18)
Total net investment hedges	0	0	0	0	0	(18)

Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	1,912	0	0	0	0	0
Currency	(6)	0	0	0	0	0
Currency/Interest Rate	(12)	0	0	0	0	0
Credit	1	0	0	0	0	0
Equity	(294)	0	0	0	0	0
Commodity	(1)	0	0	0	0	0
Embedded Derivatives	(1,746)	0	0	0	0	0
Total non-qualifying hedges	(146)	0	0	0	0	0
Total	$ (149)	$ (14)	$ (5)	$ (6)	$ 2	$ (46)

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended March 31, 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	$ 23	$ (20)	$ 0	$ 0	$ 6	$ 0
Currency	(24)	0	0	0	0	0
Total fair value hedges	(1)	(20)	0	0	6	0
Cash flow hedges						
Interest Rate	0	0	0	(4)	0	5
Currency/Interest Rate	0	(1)	(16)	0	0	173
Total cash flow hedges	0	(1)	(16)	(4)	0	178
Net investment hedges						
Currency(2)	0	0	0	0	0	4
Currency/Interest Rate	0	0	0	0	0	106
Total net investment hedges	0	0	0	0	0	110
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	(1,057)	0	0	0	0	0
Currency	(257)	0	0	0	0	0
Currency/Interest Rate	243	0	1	0	0	0
Credit	(2)	0	0	0	0	0
Equity	(1,445)	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	1,657	0	0	0	0	0
Total non-qualifying hedges	(861)	0	1	0	0	0
Total	$ (862)	$ (21)	$ (15)	$ (4)	$ 6	$ 288

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

For the three months ending March 31, 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 March 31, 2014	(38)
Amount reclassified into current period earnings	10
Balance, March 31, 2014	$ (474)

Using March 31, 2014 values, it is anticipated that a pre-tax loss of approximately $15 million will be reclassified from Accumulated other comprehensive income (loss) to earnings during the subsequent twelve months ending March 31, 2015, offset by amounts pertaining to the hedged items. As of March 31, 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 $338 million and $356 million as of March 31, 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 of less than $1 million, as of both March 31, 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 March 31, 2014 and December 31, 2013 was an asset of less than $1 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 March 31, 2014 and December 31, 2013, the Company had $1,336 million and $1,399 million of outstanding notional amounts, respectively, reported at fair value as a liability of $38 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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

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 bilateral 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. Also, the Company 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 $260 million as of March 31, 2014. In the normal course of business the Company has posted collateral related to these instruments of $245 million as of March 31, 2014. If the credit-risk-related contingent features underlying these agreements had been triggered on March 31, 2014, the Company estimates that it would be required to post a maximum of $15 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

	March 31, 2014	December 31, 2013
	(in millions)	
Total outstanding mortgage loan commitments	$ 3,425	$ 2,365
Portion of commitment where prearrangement to sell to investor exists	$ 1,401	$ 587

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 governmental sponsored entities as discussed below, after the Company funds the loan.

Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	March 31, 2014	December 31, 2013
	(in millions)	
Expected to be funded from the general account and other operations outside the separate accounts(1)	$ 4,826	$ 5,461
Expected to be funded from separate accounts	$ 241	$ 274
Portion of separate account commitments with recourse to Prudential Insurance	$ 0	$ 0

(1) Includes a remaining commitment of $236 million and $256 million at March 31, 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. Some of the separate account commitments have recourse to Prudential Insurance if the separate accounts are unable to fund the amounts when due.

Guarantees of Investee Debt

	March 31, 2014	December 31, 2013
	(in millions)	
Total guarantees of debt issued by entities in which the separate accounts have invested	$ 2,159	$ 2,510
Amount of above guarantee that is limited to separate account assets	$ 2,159	$ 2,510
Accrued liability associated with guarantee	$ 0	$ 0

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 eleven years. At March 31, 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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Indemnification of Securities Lending Transactions

	March 31, 2014	December 31, 2013
	(in millions)	
Indemnification provided to mutual fund and separate account clients for securities lending	$ 16,852	$ 15,598
Fair value of related collateral associated with above indemnifications	$ 17,155	$ 15,965
Accrued liability associated with guarantee	$ 0	$ 0

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

	March 31, 2014	December 31, 2013
	(in millions)	
Guaranteed value of third parties assets	$ 78,035	$ 78,110
Fair value of collateral supporting these assets	$ 79,675	$ 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

	March 31, 2014	December 31, 2013
	(in millions)	
Guarantees of credit enhancements of debt instruments associated with commercial real estate assets	$ 154	$ 156
Fair value of properties and associated tax credits that secure the guarantee	$ 195	$ 220
Accrued liability associated with guarantee	$ 0	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

Indemnification of Serviced Mortgage Loans

	March 31, 2014	December 31, 2013
	(in millions)	
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	$ 1,166	$ 1,173
First-loss exposure portion of above	$ 369	$ 371
Accrued liability associated with guarantees	$ 16	$ 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 $8,782 million of mortgages subject to these loss-sharing arrangements as of March 31, 2014, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of March 31, 2014, these mortgages had an average debt service coverage ratio of 1.87 times and an average loan-to-value ratio of 60%. The Company had no losses related to indemnifications that were settled for the three months ending March 31, 2014 and March 31, 2013, respectively.

Other Guarantees

	March 31, 2014	December 31, 2013
	(in millions)	
Other guarantees where amount can be determined	$ 407	$ 404
Accrued liability for other guarantees and indemnifications	$ 7	$ 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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

$327 million and $323 million as of March 31, 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.

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 March 31, 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.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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 contract holders 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 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 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.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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: (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 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.

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* 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

in their entirety. In December 2013, the lawsuit against *Goldman Sachs* was settled. In March 2014, 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 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 April 2014, *UBS* filed a motion to dismiss the complaint. The motions to dismiss filed by Barclays, Nomura, RBS and UBS are pending.

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 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

March 31, 2014 and December 31, 2013 (in millions)

	March 31, 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	$ 251,059	$ 44,262	$ 295,321	$ 243,654	$ 43,212	$ 286,866
Fixed maturities, held-to-maturity, at amortized cost	3,275	0	3,275	3,312	0	3,312
Trading account assets supporting insurance liabilities, at fair value	20,935	0	20,935	20,827	0	20,827
Other trading account assets, at fair value	7,692	329	8,021	6,111	342	6,453
Equity securities, available-for-sale, at fair value	6,249	3,942	10,191	6,026	3,884	9,910
Commercial mortgage and other loans	32,471	9,921	42,392	31,335	9,673	41,008
Policy loans	6,862	4,971	11,833	6,753	5,013	11,766
Other long-term investments	8,393	2,084	10,477	8,304	2,024	10,328
Short-term investments	4,625	1,398	6,023	5,837	1,866	7,703
Total investments	341,561	66,907	408,468	332,159	66,014	398,173
Cash and cash equivalents	11,294	1,178	12,472	10,797	642	11,439
Accrued investment income	2,532	602	3,134	2,505	584	3,089
Deferred policy acquisition costs	16,229	388	16,617	16,101	411	16,512
Value of business acquired	3,610	0	3,610	3,675	0	3,675
Other assets	13,412	861	14,273	13,082	751	13,833
Separate account assets	288,161	0	288,161	285,060	0	285,060
TOTAL ASSETS	$ 676,799	$ 69,936	$ 746,735	$ 663,379	$ 68,402	$ 731,781
LIABILITIES AND EQUITY						
LIABILITIES						
Future policy benefits	$ 161,466	$ 50,074	$ 211,540	$ 156,601	$ 50,258	$ 206,859
Policyholders account balances	131,899	5,345	137,244	131,298	5,359	136,657
Policyholders dividends	138	6,381	6,519	97	5,418	5,515
Securities sold under agreements to repurchase	4,864	3,484	8,348	4,128	3,770	7,898
Cash collateral for loaned securities	4,035	1,247	5,282	4,230	810	5,040
Income taxes	7,328	(468)	6,860	6,010	(588)	5,422
Short-term debt	3,944	75	4,019	2,594	75	2,669
Long-term debt	20,965	1,600	22,565	21,953	1,600	23,553
Other liabilities	12,487	745	13,232	13,618	307	13,925
Notes issued by consolidated variable interest entities	4,101	0	4,101	3,302	0	3,302
Separate account liabilities	288,161	0	288,161	285,060	0	285,060
Total liabilities	639,388	68,483	707,871	628,891	67,009	695,900
EQUITY						
Accumulated other comprehensive income (loss)	10,653	145	10,798	8,586	95	8,681
Other attributed equity	26,117	1,308	27,425	25,299	1,298	26,597

Total attributed equity	36,770	1,453	38,223	33,885	1,393	35,278
Noncontrolling interests	641	0	641	603	0	603
Total equity	37,411	1,453	38,864	34,488	1,393	35,881
TOTAL LIABILITIES AND EQUITY	$ 676,799	$ 69,936	$ 746,735	$ 663,379	$ 68,402	$ 731,781

See Notes to Unaudited Interim Supplemental Combining Financial Information

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

Three Months Ended March 31, 2014 and 2013 (in millions)

	2014 Financial Services Businesses	2014 Closed Block Business	2014 Consolidated	2013 Financial Services Businesses	2013 Closed Block Business	2013 Consolidated
REVENUES						
Premiums	$ 5,229	$ 639	$ 5,868	$ 6,437	$ 647	$ 7,084
Policy charges and fee income	1,501	0	1,501	1,356	0	1,356
Net investment income	3,063	775	3,838	2,875	763	3,638
Asset management and service fees	904	0	904	820	0	820
Other income	520	15	535	(2,016)	12	(2,004)
Realized investment gains (losses), net:						
Other-than-temporary impairments on fixed maturity securities	(60)	(19)	(79)	(209)	(99)	(308)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	50	13	63	150	88	238
Other realized investment gains (losses), net	81	143	224	(761)	108	(653)
Total realized investment gains (losses), net	71	137	208	(820)	97	(723)
Total revenues	11,288	1,566	12,854	8,652	1,519	10,171
BENEFITS AND EXPENSES						
Policyholders benefits	5,594	792	6,386	6,404	815	7,219
Interest credited to policyholders account balances	981	34	1,015	1,016	34	1,050
Dividends to policyholders	23	577	600	57	503	560
Amortization of deferred policy acquisition costs	426	11	437	207	11	218
General and administrative expenses	2,559	139	2,698	2,546	137	2,683
Total benefits and expenses	9,583	1,553	11,136	10,230	1,500	11,730
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,705	13	1,718	(1,578)	19	(1,559)
Income tax expense (benefit)	473	0	473	(831)	4	(827)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,232	13	1,245	(747)	15	(732)
Equity in earnings of operating joint ventures, net of taxes	0	0	0	46	0	46
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,232	13	1,245	(701)	15	(686)
Income from discontinued operations, net of taxes	4	0	4	1	0	1

NET INCOME (LOSS)	1,236	13	1,249	(700)	15	(685)
Less: Income attributable to noncontrolling interests	11	0	11	35	0	35
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 1,225	$ 13	$ 1,238	$ (735)	$ 15	$ (720)

See Notes to Unaudited Interim Supplemental Combining Financial Information

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 Annual Report on Form 10-K for 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.

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 March 31, 2014, compared with December 31, 2013, and its consolidated results of operations for the three months ended March 31, 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 or will be divested.

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

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

Closed Block Business

In connection with the demutualization, we ceased offering domestic participating products. The liabilities for our traditional domestic in force participating products were segregated, together with assets, in a regulatory mechanism referred to as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations for future policy dividends after demutualization of holders of participating individual life insurance policies and annuities included in the Closed Block by allocating assets that will be used exclusively for payment of benefits, including policyholder dividends, expenses and taxes with respect to these products. See Note 6 to the Unaudited Interim Consolidated Financial Statements and Business Demutualization and Separation of 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 $1.131 trillion of assets under management as of March 31, 2014, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, and investment management. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

On February 11, 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.

During the first quarter of 2014, we purchased 2.9 million shares of our Common Stock at a total cost of $250 million, under the $1.0 billion share repurchase authorization from our Board of Directors covering the period from July 1, 2013 through June 30, 2014. We also purchased 6.1 million shares in 2013 under this authorization at a total cost of $500 million. The timing and amount of any share repurchases will be determined by management based upon market conditions and other considerations, and such repurchases may be effected in the open market, through derivative, accelerated repurchase and negotiated transactions and through prearranged trading plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended.

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.

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 will focus 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 .

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 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.

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The National Association of Insurance Commissioners (NAIC), the NY DFS and other regulators continue to review life insurers use of captive reinsurance companies. In February 2014, Rector & Associates, Inc., a consulting firm commissioned by the NAIC, issued a report to the NAIC that recommends placing limitations on the types of assets that may be used to finance reserves associated with certain term and universal life insurance policies and requiring captive reinsurers to collateralize their reinsurance obligations. In addition, in March 2014, a committee of the NAIC 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 coming year; however, the recent trend of increasing interest rates, if sustained, will mitigate the impact of new investment purchases on our overall portfolio yields.

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 $161 billion of such assets (based on net carrying value) as of March 31, 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 $161 billion of fixed maturity securities and commercial mortgage loans are approximately $63 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 March 31, 2014, approximately 80% of these assets contain prepayment penalties.

The reinvestment of scheduled payments and prepayments at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, will impact future operating results to the extent we do not, or are unable to, reduce crediting rates on in-force blocks of business, or effectively utilize other asset/liability management strategies described below, in order to maintain current net interest margins. As of March 31, 2014, our domestic Financial Services Businesses have approximately $152 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 March 31, 2014, and the respective guaranteed minimums.

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	Account Values with Crediting Rates					
	At guaranteed minimum	1-49 bps above guaranteed minimum	50-99 bps above guaranteed minimum	100-150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
	($ billions)					
Range of Guaranteed Minimum Crediting Rates:						
Less than 1.00%	$ 0.5	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.5
1.00%-1.99%	1.3	1.8	10.9	1.8	0.2	16.0
2.00%-2.99%	2.4	0.0	0.1	2.0	0.2	4.7
3.00%-4.00%	24.0	0.4	2.0	0.2	0.0	26.6
Greater than 4.00%	1.1	0.0	0.0	0.0	0.0	1.1
Total	$ 29.3	$ 2.2	$ 13.0	$ 4.0	$ 0.4	$ 48.9
Percentage of total	60%	4%	27%	8%	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 $13 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 $90 billion of the $152 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 2.75% for the period from April 1, 2014 through December 31, 2015, and credit spreads remain unchanged from levels as of March 31, 2014, we estimate that the unfavorable impact to net interest margins included in pre-tax adjusted operating income of reinvesting in such an environment, compared to reinvesting at current average portfolio yields, would be approximately $11 million in 2014 and $47 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.

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

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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 March 31, 2014, these operations have $128 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 $128 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 first quarter of 2014 was $1,225 million compared to a net loss of $735 million for the first quarter of 2013.

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

Pre-tax adjusted operating income for the Financial Services Businesses for the first quarter of 2014 was $1,571 million compared to $1,478 million for the first quarter of 2013. 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.

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	Three Months Ended March 31, 2014	2013
	(in millions)	
Adjusted operating income before income taxes for segments of the Financial Services Businesses:		
Individual Annuities	$ 388	$ 372
Retirement	364	228
Asset Management	193	169
Total U.S. Retirement Solutions and Investment Management Division	945	769
Individual Life	125	137
Group Insurance	6	9
Total U.S. Individual Life and Group Insurance Division	131	146
International Insurance	837	877
Total International Insurance Division	837	877
Corporate and Other	(342)	(314)
Adjusted operating income before income taxes for the Financial Services Businesses	1,571	1,478
Reconciling Items:		
Realized investment gains (losses), net, and related adjustments(1)	49	(3,305)
Charges related to realized investment gains (losses), net(2)	(57)	302
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	101	95
Change in experience-rated contractholder liabilities due to asset value changes(4)	(43)	(143)
Divested businesses(5)	73	29
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(6)	11	(34)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,705	(1,578)
Income (loss) from continuing operations before income taxes for Closed Block Business	13	19
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,718	$ (1,559)

(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. Segment results for the first quarter of 2014 increased in comparison to the first quarter of 2013, primarily reflecting higher net asset-based fee income, partially offset by an unfavorable impact on reserves and the amortization of DAC and other costs from changes in the estimated profitability of the business due to market performance in relation to our assumptions.

Retirement. Segment results for the first quarter of 2014 increased in comparison to the first quarter of 2013, primarily reflecting higher net investment spread results, including favorable results from non-coupon investments, and higher asset-based fee income, driven by higher investment-only stable value and full service account values.

Asset Management. Segment results for the first quarter of 2014 increased in comparison to the first quarter of 2013, primarily reflecting higher asset management fees, net of expenses, driven by higher assets under management due to market appreciation and positive net flows.

Individual Life. Segment results for the first quarter of 2014 decreased in comparison to the first quarter of 2013 primarily reflecting less favorable mortality experience, inclusive of reserve updates in the current quarter, partly offset by a higher net contribution from investment results driven by higher income from non-coupon investments and higher asset balances.

Group Insurance. Segment results for the first quarter of 2014 decreased in comparison to the first quarter of 2013 driven by a decline from group disability claims experience and higher expenses, partially offset by an increase in income from non-coupon investments.

International Insurance. Segment results for the first quarter of 2014 decreased in comparison to the first quarter of 2013 in both our Life Planner and Gibraltar Life and Other operations, including a net unfavorable impact from foreign currency exchange rates. Results from the segment s Life Planner operations also include an unfavorable impact from reserve refinements, primarily in our Korean operations. Excluding these items, results from the segment s Life Planner operations increased in comparison to the first quarter of 2013 primarily reflecting business growth, partially offset by less favorable claims experience, inclusive of reserve updates.

Results from the segment s Gibraltar Life and Other operations in the first quarter of 2013 included a gain on the sale of our remaining indirect investment in China Pacific Group. Excluding this item, along with the unfavorable impact of foreign currency fluctuations noted above, results increased in comparison to the first quarter of 2013, primarily driven by lower expenses as well as business growth.

Corporate and Other operations. The results for the first quarter of 2014 as compared to first quarter of 2013 reflect an increased loss primarily due to higher levels of corporate expenses, partially offset by lower capital debt interest expense.

Closed Block Business. Income from continuing operations before income taxes decreased $6 million in the first quarter of 2014 compared to the first quarter of 2013. Results primarily reflect an increase in net realized investment gains and higher net investment income which resulted in an increase in the policyholder dividend obligation expense in the first quarter of 2014.

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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 March 31, 2014	Three Months Ended March 31, 2013
	(in millions)	
Financial Services Businesses:		
Revenues	$ 11,288	$ 8,652
Benefits and expenses	9,583	10,230
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,705	(1,578)
Income tax expense (benefit)	473	(831)
Income (loss) from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	1,232	(747)
Equity in earnings of operating joint ventures, net of taxes	0	46
Income (loss) from continuing operations for Financial Services Businesses	1,232	(701)
Income (loss) from discontinued operations, net of taxes	4	1
Net income (loss) Financial Services Businesses	1,236	(700)
Less: Income (loss) attributable to noncontrolling interests	11	35
Net income (loss) of Financial Services Businesses attributable to Prudential Financial, Inc.	$ 1,225	$ (735)
Closed Block Business:		
Revenues	$ 1,566	$ 1,519
Benefits and expenses	1,553	1,500
Income (loss) from continuing operations before income taxes for Closed Block Business	13	19
Income tax expense	0	4
Income (loss) from continuing operations for Closed Block Business	13	15
Income (loss) from discontinued operations, net of taxes	0	0
Net income (loss) Closed Block Business	13	15
Less: Income (loss) attributable to noncontrolling interests	0	0
Net income (loss) of Closed Block Business attributable to Prudential Financial, Inc.	$ 13	$ 15
Consolidated:		
Net income (loss) attributable to Prudential Financial, Inc.	$ 1,238	$ (720)

Results of Operations Financial Services Businesses

2014 to 2013 Three Month Comparison. Income (loss) from continuing operations for the Financial Services Businesses increased $1,933 million from a loss of $701 million in the first quarter of 2013 to income of $1,232 million in the first quarter of 2014. Results for the first quarter of 2014 compared to the first quarter of 2013 reflect the following:

- Higher net pre-tax earnings of $2,618 million resulting from the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations which are economically matched and offset in AOCI, driven by the strengthening of the Japanese yen in the current quarter compared to the weakening of the Japanese yen in the year ago quarter;

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$1,112 million higher net pre-tax realized gains (losses), excluding the impact of the hedging program associated with certain variable annuities described below, primarily reflecting changes in the market value of derivatives due to a decrease in interest rates in the current quarter compared to an increase in interest rates in the year ago quarter; and

$931 million favorable variance, before income taxes, reflecting the net impact from changes in the value of our embedded derivatives and related hedge positions associated with certain variable annuities, largely driven by changes in the adjustment for non-performance risk.

Partially offsetting these increases in income (loss) from continuing operations were the following items:

Less favorable results of $1,486 million, on a pre-tax basis, associated with our Capital Protection Framework, driven by a decrease in interest rates in the current quarter compared to an increase in the year ago quarter, reflecting our decision to manage interest rate risk through this framework;

A $1,304 million unfavorable variance reflecting tax expense in the current quarter compared to a tax benefit in the year ago quarter, largely driven by pre-tax income in the current quarter compared to a loss in the year ago quarter;

An $83 million unfavorable variance, before taxes, from adjustments to deferred policy acquisition and other costs as well as reserves, reflecting updates to the estimated profitability of our Individual Annuities business primarily driven by the impact of market performance relative to our assumptions. This excludes the impact associated with the variable annuity hedging program discussed above; and

The absence of a $66 million pre-tax gain in the first quarter of 2013 from the sale of our remaining indirect investment in China Pacific Group.

In addition to these impacts, results reflect business growth including the impact of higher account values, particularly within our U.S. Retirement Solutions and Investment Management Division, and growth of in force business in our International Insurance Division (see Results of Operations for Financial Services Businesses by Segment for additional information).

Results of Operations Closed Block Business

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

Segment Measures

Adjusted Operating Income. In managing our business, we analyze operating performance separately for our Financial Services Businesses and our Closed Block Business. For the Financial Services Businesses, we analyze our segments operating performance using adjusted operating income. Results of the Closed Block Business for all periods are evaluated and presented only in accordance with U.S. GAAP. Adjusted operating income does not equate to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as determined in accordance with U.S. GAAP but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is our measure of segment performance. The adjustments to derive adjusted operating income are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and our definition of adjusted operating income may differ from that used by other companies. However, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances the understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of the Financial Services Businesses.

See Note 11 to the Unaudited Interim Consolidated Financial Statements for further information on the presentation of segment results and our definition of adjusted operating income.

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

Assets Under Management. In managing our Asset Management business, we analyze assets under management, which do not correspond to U.S. GAAP assets, because the principal source of revenues is fees based on assets under management. Assets under management represents the fair market value or account value of assets which we manage directly for institutional clients, retail clients, and for our general account, as well as assets invested in our products that are managed by third party managers.

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

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

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

- Deferred policy acquisition costs (DAC) and other costs, including deferred sales inducements and value of business acquired;
- Goodwill;
- Valuation of investments, including derivatives, and the recognition of other-than-temporary impairments;
- Policyholder liabilities;
- Pension and other postretirement benefits;

Taxes on income; and

Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

DAC and Other Costs

The near-term future rate of return assumptions used in evaluating DAC and deferred sales inducements for our domestic variable annuity and variable life insurance products are derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns over a period of time and initially adjust future projected equity returns over the next four years (the near-term) so that the assets are projected to grow at the long-term expected rate of return for the entire period. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 13%, we use our maximum future rate of return. As of March 31, 2014, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 4.2% near-term mean reversion equity rate of return.

The weighted average rate of return assumptions for these businesses consider many factors specific to each business, including asset durations, asset allocations and other factors. We generally update the near term equity rates of return and our estimate of total gross profits each quarter to reflect the result of the reversion to the mean approach, which assumes a convergence to the long-term equity expected rates of return. These market performance related adjustments to our estimate of total gross profits result in cumulative adjustments to prior amortization, reflecting the application of the new required rate of amortization to all prior periods gross profits.

For additional information on our policies for DAC and other costs and for the remaining critical accounting estimates listed above, see our Annual Report on Form 10-K for the year ended December 31, 2013, under Management s Discussion and Analysis of Financial Condition and Results of Operations Accounting Policies & Pronouncements Application of Critical Accounting Estimates.

Adoption of New Accounting Pronouncements

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

Results of Operations for Financial Services Businesses by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

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

The U.S. GAAP accounting and our adjusted operating income treatment for our guarantees differs depending upon the specific feature. The reserves for our guaranteed minimum death benefit (GMDB) and guaranteed minimum income benefit (GMIB) features are calculated based on our best estimate of actuarial and capital markets return assumptions. The risks associated with these benefit features are retained and results are included in adjusted operating income. In contrast, certain of our optional guaranteed living benefit features are accounted for as embedded derivatives and reported at fair value. Under U.S. GAAP, the fair values of these benefit features are based on assumptions a market participant would use in valuing these embedded derivatives. We hedge or limit our exposure to certain risks associated with these features through our living benefits hedging program and product design elements. Adjusted operating income, as discussed below in Adjusted Operating Income and Revenues, Benefits and Expenses excludes amounts related to changes in the market value of

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the embedded derivatives and related hedge positions, and the related impact to amortization of DAC and other costs. The items excluded from adjusted operating income are discussed below in Variable Annuity Living Benefits Hedging Program Results.

Account Values

Account values are a significant driver of our operating results. Since most fees are determined by the level of separate account assets, fee income varies according to the level of account values. Additionally, our fee income generally drives other items such as our pattern of amortization of DAC and other costs. Account values are driven by net flows from new business sales, the impact of market changes which can be either positive or negative, and outflows related to surrenders, withdrawals, benefit payments and policy charges. The annuity industry competitive landscape, which has been dynamic over the last few years, may impact our net flows and new business sales. The following table sets forth account value information for the periods indicated.

	Three Months Ended March 31,	
	2014	**2013**
	(in millions)	
Total Individual Annuities(1):		
Beginning total account value	$ 154,140	$ 135,342
Sales	2,321	4,224
Surrenders and withdrawals	(2,193)	(1,817)
Net sales	128	2,407
Benefit payments	(411)	(381)
Net flows	(283)	2,026
Change in market value, interest credited and other activity	2,267	6,116
Policy charges	(848)	(736)
Ending total account value	$ 155,276	$ 142,748

(1) Includes variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment. Variable annuity account values were $151.6 billion and $139.0 billion as of March 31, 2014 and 2013, respectively. Fixed annuity account values were $3.7 billion as of both March 31, 2014 and 2013.

As shown above, our account values are significantly impacted by net sales and the impact of market performance on customer accounts. The increases in account values as of March 31, 2014 compared to the prior periods were largely driven by favorable changes in the market value of contractholder funds, primarily reflecting equity market appreciation and, to a lesser extent, positive net sales. Results for the three months ended March 31, 2014 compared to the prior year period reflected a decline in sales coupled with an increase in surrenders and withdrawals. The decline in sales for the three months ended March 31, 2014 compared to the prior year period was primarily due to a temporary surge in sales in the first quarter of 2013, in anticipation of modifications to our products with the highest daily benefit. This decline was partially offset by sales of our Prudential Defined Income Variable Annuity, or PDI, which represented approximately 20% of total sales for the first quarter of 2014. PDI was launched in the first quarter of 2013 to complement the products we offer with the highest daily benefit. The increase in surrenders and withdrawals for the three months ended March 31, 2014 compared to the prior year period was primarily driven by higher account values. Partially offsetting these net increases in account values were higher policy charges on contractholder accounts.

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Operating Results

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in millions)	
Operating results:		
Revenues	$ 1,157	$ 1,068
Benefits and expenses	769	696
Adjusted operating income	388	372
Realized investment gains (losses), net, and related adjustments	204	(1,080)
Related charges	36	362
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 628	$ (346)

Adjusted Operating Income

Adjusted operating income increased $16 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased $99 million. The increase was driven by higher asset-based fee income due to growth in average variable annuity account values, as discussed in Account Values above, net of a related increase in asset-based commissions. Also contributing to the increase were lower amortization costs and reserve provisions.

The impacts of changes in the estimated profitability of the business include adjustments to the amortization of DAC and other costs and to the reserves for the GMDB and GMIB features of our variable annuity products. These adjustments resulted in a net charge of $21 million and a net benefit of $62 million in the first quarter of 2014 and 2013, respectively. The net charge in the first quarter of 2014 primarily reflects the impact of lower interest rates on expected rates of return on fixed income investments within contractholder accounts, which more than offset favorable equity market performance. The net benefit in the first quarter of 2013 primarily reflects the impact of positive market performance on contractholder accounts relative to our assumptions. For weighted average rate of return assumptions as of March 31, 2014, see Accounting Policies & Pronouncements Application of Critical Accounting Estimates.

Revenues, Benefits and Expenses

Revenues, as shown in the table above under Operating Results, increased $89 million. The increase was driven by a $95 million increase in policy charges and fee income, asset management and service fees and other income, due to growth in average variable annuity account values, as discussed in Account Values above. Partially offsetting this increase was an $11 million decline in net investment income, driven by lower average account values in the general account due to surrenders of legacy general account products and, to a lesser extent, net transfers from the general account to the separate accounts.

Benefits and expenses, as shown in the table above under "Operating Results," increased $73 million. Absent the $83 million net increase related to the impacts of certain changes in our estimated profitability of the business discussed above, benefits and expenses decreased $10 million. The amortization of DAC decreased $16 million, primarily due to lower amortization rates driven by the impact of prior periods' favorable market performance and other refinements on the amortization rate applied to the current period gross profits. Interest credited to policyholders account balances decreased by $14 million driven by lower average account values in the general account, as discussed above. These decreases were partially offset by a $20 million increase in general and administrative expenses, net of capitalization, driven by higher asset-based commissions and asset management costs due to account value growth.

Variable Annuity Risks and Risk Mitigants

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions, such as equity market returns, interest rates and market volatility, and actuarial assumptions, such as contractholder longevity/mortality, the timing and amount of annuitization and withdrawals, and contract lapses. For our actuarial assumptions, we have retained the risk that actual experience will differ from the assumptions used in the original pricing of these products. For our capital markets assumptions, we hedge or limit our exposure to the risk created by capital markets fluctuations through a combination of product design elements, such as an automatic rebalancing element, also referred to as an asset transfer feature, and inclusion of certain optional living benefits in our living benefits hedging program.

Our automatic rebalancing element occurs at the contract level, and transfers assets between certain variable investment sub-accounts selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond fund sub-account within the separate accounts. The automatic rebalancing element associated with currently-sold products uses a designated bond fund sub-account within the separate accounts. The transfers are based on the static mathematical formula used with the particular benefit which considers a number of factors, including, but not limited to, the impact of investment performance on the contractholder s total account value. The objective of the automatic rebalancing element is to help mitigate our exposure to equity market risk and market volatility. Other product design elements we utilize include, among others, asset allocation restrictions, minimum issuance age requirements and certain limitations on the amount of subsequent contractholder deposits, as well as required allocation to our general account for certain of our products. In addition, certain fees are based on the greater of a benefit guarantee amount or the account value, which helps preserve certain revenue streams when market fluctuations cause account values to decline.

We use our living benefits hedging program to manage the risk associated with certain of our optional living benefit guarantees. This program represents a balance among three objectives that seek to: 1) provide severe scenario protection, 2) minimize net income volatility associated with an internally-defined hedge target, and 3) maintain capital efficiency. Through our hedge program, we enter into derivative positions that seek to replicate the net change in our hedge target, discussed further below. In addition to mitigating capital markets risk and income statement volatility, the hedging program is also focused on a long-term goal of accumulating assets that could be used to pay claims under these benefits irrespective of market path. For additional information regarding this program see Variable Annuities Living Benefits Hedging Program Results below.

For our optional living benefits features, claims will primarily represent the funding of contractholder lifetime withdrawals after the cumulative withdrawals have first exhausted the contractholder account value. Due to the age of the block, limited claim payments have occurred to date, and they are not expected to increase significantly within the next five years, based upon current assumptions. The timing and amount of actual future claims depend on actual returns on contractholder account value and actual contractholder behavior relative to our assumptions. The majority of our current optional living benefits features provide for guaranteed lifetime contractholder withdrawal payments inclusive of a highest daily contract value. As noted under Account Values above, late in the first quarter of 2013, we launched our PDI variable annuity, to complement the variable annuity products we offer with the highest daily benefit. PDI also provides for guaranteed lifetime contractholder withdrawal payments, but restricts contractholder asset allocation to a single bond fund sub-account within the separate account.

The majority of our variable annuity contracts with optional living benefits features, and all new contracts sold with our highest daily living benefits feature, include two risk mitigants in the form of an automatic rebalancing element and inclusion in our living benefits hedging program. The guaranteed benefits features of certain legacy products that were sold prior to our implementation of the automatic rebalancing element product feature are included in our living benefits hedge program. Certain legacy guaranteed minimum accumulation benefit (GMAB) products include the automatic rebalancing element, but are not included in the hedging program. Our contracts with the GMIB feature and our new PDI product have neither risk mitigant.

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

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

	March 31, 2014		December 31, 2013		March 31, 2013	
	Account Value	% of Total	Account Value	% of Total	Account Value	% of Total
			(in millions)			
Optional living benefit/GMDB features(1):						
Both risk mitigants(2)	$ 106,985	71%	$ 105,630	71%	$ 95,720	69%
Hedging program only	12,030	8%	12,229	8%	12,022	9%
Automatic rebalancing only	2,154	1%	2,280	2%	2,642	2%
Neither risk mitigant	4,853	3%	4,459	3%	3,652	2%
Total optional living benefit/GMDB features	$ 126,022		$ 124,598		$ 114,036	
GMDB features only(3):						
Neither risk mitigant	25,598	17%	25,869	16%	24,998	18%
Total variable annuity account value	$ 151,620		$ 150,467		$ 139,034	

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

The increase in account values that include both risk mitigants as of March 31, 2014 compared to the prior periods primarily reflects sales of our latest product offerings with our highest daily optional living benefits feature, as well as market appreciation. The increase in account values related to contracts that exclude both risk mitigants was driven by sales of our new PDI product.

Variable Annuity Living Benefits Hedging Program Results

Under U.S. GAAP, the liability for certain optional living benefit features is accounted for as an embedded derivative and recorded at fair value, based on assumptions a market participant would use in valuing these features. The fair value is calculated as the present value of future expected benefit payments to contractholders less the present value of assessed rider fees attributable to the applicable living benefit features using option pricing techniques. See Note 13 to the Unaudited Interim Consolidated Financial Statements for additional information regarding the methodology and assumptions used in calculating the fair value under U.S. GAAP.

As noted within Variable Annuity Risks and Risk Mitigants above, we maintain a hedge program to manage the risk associated with certain of these guarantees. Our hedge program utilizes an internally-defined hedge target. We review our hedge target and hedge program on an ongoing basis, and may periodically adjust

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them based on our evaluation of the risks associated with the guarantees and other factors. Based on our review in the third quarter of 2013, we adjusted our hedge target so that, as currently defined, it includes the following modifications to the assumptions used in the U.S. GAAP valuation:

The impact of non-performance risk (NPR) is excluded to maximize protection against the entire projected claim irrespective of the possibility of our own default.

The assumptions used in the projection of customer account values and living benefit costs are adjusted to reflect our assumed return and volatility expectations for the underlying investments.

Actuarial assumptions are adjusted to remove risk margins and reflect our best estimates.

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

	As of March 31, 2014	As of December 31, 2013
	(in billions)	
Embedded derivative liability as defined by U.S. GAAP	$ 2.5	$ 0.5
Less: NPR Adjustment	(2.9)	(2.2)
Embedded derivative liability as defined by U.S. GAAP, excluding NPR	5.4	2.7
Less: Amount of embedded derivative liability, excluding NPR, excluded from hedge target liability	4.4	3.9
Hedge target liability/(contra-liability)	$ 1.0	$ (1.2)

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

	As of March 31, 2014				As of December 31, 2013			
	Equity		Interest Rate		Equity		Interest Rate	
Instrument	Notional	Market Value	Notional	Market Value	Notional	Market Value	Notional	Market Value
				(in billions)				
Futures	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.2	$ 0.0	$ 0.0	$ 0.0
Swaps(1)	12.2	(0.2)	72.9	(0.7)	11.1	(0.5)	72.2	(2.8)
Options	6.5	0.3	22.1	0	7.1	0.4	23.6	0.1
Total	$ 18.7	$ 0.1	$ 95.0	$ (0.7)	$ 18.4	$ (0.1)	$ 95.8	$ (2.7)

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

Due to cash flow timing differences between our hedging instruments and the corresponding hedge target, as well as other factors such as updates to actuarial assumptions which are not hedged, the market value of the hedge portfolio compared to our hedge target measured as of any specific point in time may be different and is not expected to be fully offsetting. In addition to the derivatives held as part of the hedging program, we have

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cash and other invested assets available to cover the future claims payable under these guarantees and other liabilities. For additional information on the liquidity needs associated with our hedging program, see Liquidity and Capital Resources Liquidity Liquidity associated with other activities Hedging activities associated with living benefit guarantees.

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

Fund Performance In order to project future account value changes, we make certain assumptions about how each underlying fund will perform. We map contractholder funds to indices that we believe are comparable, are readily tradable and have active derivative markets. The difference between the modeled fund performance and actual fund performance results in basis differences that can be either positive or negative.

Rebalancing Costs and Volatility We incur costs associated with rebalancing hedge positions for basis differences between the hedge positions and the hedge target. Our hedge program is also subject to the impact of realized market volatility in excess of, or lower than, our hedge target volatility assumptions.

Liability Basis We make assumptions about expected changes in the hedge target related to contractholder behavior, which are not hedged, and capital markets impacts, which we attempt to replicate with our hedge program. The difference between the actual change in the hedge target and the expected changes we have modeled results in basis differences, which can be either positive or negative.

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

	Three Months Ended March 31, 2014 (1)	Three Months Ended March 31, 2013
	(in millions)	
Hedge Program Results:		
Change in fair value of hedge positions	$ 1,956	$ (2,701)
Change in value of hedge target	(1,936)	2,400
Net hedging impact(2)	$ 20	$ (301)
Reconciliation of Hedge Program Results to U.S. GAAP Results:		
Net hedging impact (from above)	$ 20	$ (301)
Change in portions of U.S. GAAP liability, before NPR, excluded from hedge target(3)	(561)	259
Change in the NPR adjustment	728	(1,036)
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions reported in Individual Annuities	187	(1,078)
Related benefit to amortization of DAC and other costs	29	363

Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs reported in Individual Annuities(2)	$ 216	$ (715)

(1) Positive amount represents income; negative amount represents a loss.

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(2) Excludes $(870) million and $318 million for the three months ended March 31, 2014 and 2013, respectively, representing the impact of managing interest rate risk through capital management strategies other than hedging of particular exposures. Because this decision is based on the capital considerations of the Company as a whole, the impact is reported in Corporate and Other operations. See Corporate and Other.
(3) Represents the impact attributable to the difference between the value of the hedge target and the value of the embedded derivative as defined by U.S. GAAP, before adjusting for NPR, as discussed above.

The net hedging benefit of $216 million and charge of $715 million for the first quarter of 2014 and 2013, respectively, were primarily attributable to changes in the portions of the U.S. GAAP liability that are excluded from our hedge target, including the change in NPR, net of the offsetting impacts of including those changes in gross profits used to calculate the amortization of DAC and other costs. Net unfavorable capital markets conditions in 2014, primarily driven by declining interest rates, drove increases in the base embedded derivative liability before NPR which resulted in corresponding increases in the NPR adjustment for the three months ended March 31, 2014. Favorable capital markets conditions in 2013, primarily driven by improved equity markets, drove decreases in the base embedded derivative liability before NPR which resulted in corresponding declines in the NPR adjustment for the three months ended March 31, 2013. To a lesser extent, results for both periods also reflect the impacts of changes in the value of our hedge target and related hedge positions. The first quarter of 2014 reflected a realized gain from these net hedging impacts, driven by fund outperformance relative to indices and lower interest rate volatility net of unfavorable liability basis. The first quarter of 2013 reflected a realized loss from these net hedging impacts, driven by fund underperformance relative to indices and rebalancing costs and volatility. The changes in the NPR adjustment and the net hedging impacts were partially offset by related impacts to the amortization of DAC and other costs for both periods.

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

Retirement

Operating Results

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in millions)	
Operating results:		
Revenues	$ 1,531	$ 1,336
Benefits and expenses	1,167	1,108
Adjusted operating income	364	228
Realized investment gains (losses), net, and related adjustments	118	(117)
Related charges	0	1
Investment gains (losses) on trading account assets supporting insurance liabilities, net	173	(122)
Change in experience-rated contractholder liabilities due to asset value changes	(115)	74
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 540	$ 64

Adjusted Operating Income

Adjusted operating income increased $136 million, primarily driven by higher net investment spread results and higher asset-based fee income. The increase in net investment spread results reflects higher income on institutional investment products driven by higher returns from non-coupon investments and the benefits from reinvestments into higher yielding securities. In addition, full service net investment spread results were higher reflecting lower crediting rates driven by rate resets in the third quarter of 2013 and first quarter of 2014. Higher asset-based fee income is driven by net additions of investment-only stable value account values over the last twelve months and higher full service account values driven by market appreciation.

Revenues, Benefits and Expenses

Revenues, as shown in the table above under Operating Results, increased $195 million. Net investment income increased $121 million, primarily reflecting higher income on institutional investment products, driven by higher returns from non-coupon investments and the benefits from reinvestments into higher yielding securities. Premiums increased $47 million, driven by higher non-participating group annuity and life-contingent structured settlement sales. The increase in premiums resulted in a corresponding increase in policyholders benefits, as discussed below. Policy charges and fee income, asset management and service fees and other income increased $27 million, reflecting higher asset-based fees, primarily driven by net additions of investment-only stable value account values over the last twelve months and higher full service account values driven by market appreciation.

Benefits and expenses, as shown in the table above under Operating Results, increased $59 million. Policyholders benefits, including the change in policy reserves, increased $63 million primarily reflecting the increase in premiums discussed above and higher interest credited on pension risk transfer account values. Partially offsetting this increase was a $17 million decrease in interest credited to policyholders account balances, primarily reflecting the impact of crediting rate reductions on full service general account stable value account values and the runoff of traditional guaranteed investment products in our institutional investment products business.

Account Values

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

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	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Full Service(1):		
Beginning total account value	$ 173,502	$ 148,405
Deposits and sales	8,587	5,679
Withdrawals and benefits	(6,003)	(4,676)
Change in market value, interest credited and interest income and other activity	2,064	6,972
Ending total account value	$ 178,150	$ 156,380
Net additions	$ 2,584	$ 1,003
Institutional Investment Products(2):		
Beginning total account value	$ 149,402	$ 141,435
Additions	1,733	3,845
Withdrawals and benefits	(3,017)	(2,319)
Change in market value, interest credited and interest income	1,456	202
Other	87	(152)
Ending total account value(3)(4)	$ 149,661	$ 143,011
Net additions (withdrawals)(5)	$ (1,284)	$ 1,526

(1) Ending total account value for the full service business includes assets of Prudential s retirement plan of $7.7 billion and $6.9 billion as of March 31, 2014 and 2013, respectively.
(2) Ending total account value for the institutional investment products business includes assets of Prudential s retirement plan of $5.6 billion and $5.9 billion as of March 31, 2014 and 2013, respectively. Ending total account value for the institutional investment products business also includes $1.9 billion as of both March 31, 2014 and 2013 related to collateralized funding agreements issued to the Federal Home Loan Bank of New York (FHLBNY). For additional information, see Note 9 to the Unaudited Interim Consolidated Financial Statements.
(3) Ending total account value for the institutional investment products business includes investment-only stable value account values of $72.8 billion and $64.2 billion as of March 31, 2014 and 2013, respectively.
(4) Ending total account value for the institutional investment products business includes $31.2 billion and $33.1 billion as of March 31, 2014 and 2013 respectively, related to significant pension risk transfer transactions that closed in the fourth quarter of 2012. These account values will decline over time resulting from benefit payments to contract holders.
(5) Net additions (withdrawals) for the institutional investment products business include investment-only stable value net additions (withdrawals) of ($0.2) billion and $3.5 billion for the three months ended March 31, 2014 and 2013, respectively.

The increase in full service account values as of March 31, 2014 compared to March 31, 2013 primarily reflects the impact of equity market appreciation on the market value of customer funds over the past twelve months. The increase in net additions for the three months ended March 31, 2014 compared to the prior year period was primarily driven by a higher volume of large plan sales.

The increase in institutional investment products account values as of March 31, 2014 compared to March 31, 2013 primarily reflects net additions of our fee-based investment-only stable value product over the past twelve months, partially offset by scheduled withdrawals and benefit payments. The decrease in net additions (withdrawals) for the three months ended March 31, 2014 compared to the prior year period was primarily due to decreases in investment-only stable value sales, primarily driven by existing intermediary relationships reaching saturation levels and increased competition in the marketplace.

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Asset Management

Operating Results

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

	Three Months Ended March 31, 2014	2013
	(in millions)	
Operating results:		
Revenues	$ 667	$ 642
Expenses	474	473
Adjusted operating income	193	169
Realized investment gains (losses), net, and related adjustments	7	(6)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	7	29
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 207	$ 192

Adjusted Operating Income

Adjusted operating income increased $24 million. The increase primarily reflects higher asset management fees, net of expenses, as a result of higher assets under management due to market appreciation and positive net asset flows.

Revenues and Expenses

The following table sets forth the Asset Management segment s revenues, presented on a basis consistent with the table above under Operating Results by type.

	Three Months Ended March 31, 2014	2013
	(in millions)	
Revenues by type:		
Asset management fees by source:		
Institutional customers	$ 214	$ 203
Retail customers(1)	173	145
General account	102	103

Total asset management fees	489	451
Incentive fees	21	2
Transaction fees	7	5
Strategic investing	17	15
Commercial mortgage(2)	21	29
Other related revenues(3)	66	51
Service, distribution and other revenues(4)	112	140
Total revenues	$ 667	$ 642

(1) Consists of fees from: (a) individual mutual funds and variable annuities and variable life insurance separate account assets; (b) funds invested in proprietary mutual funds through our defined contribution plan products; and (c) third-party sub-advisory relationships. Revenues from fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance are included in the general account.

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(2) Includes mortgage origination and spread lending revenues of our commercial mortgage origination and servicing business.
(3) Future revenues will be impacted by the level and diversification of our strategic investments, the commercial real estate market, and other domestic and international markets.
(4) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004 implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was $19 million and $17 million for the three months ended March 31, 2014 and 2013, respectively.

Revenues, as shown in the table above, increased $25 million. Asset management fees increased $38 million primarily as a result of higher assets under management due to market appreciation and positive net asset flows. Performance-based incentive fees increased $19 million, driven by the sale of a fixed income investment during first quarter 2014. Service, distribution and other revenues decreased $28 million reflecting lower revenues from certain consolidated funds, which were fully offset by lower expenses related to noncontrolling interests in these funds.

Expenses, as shown in the table above under Operating Results, increased $1 million as increased compensation costs were largely offset by lower expenses related to revenues associated with certain consolidated funds, as discussed above.

Assets Under Management

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

	March 31, 2014	December 31, 2013	March 31, 2013
		(in billions)	
Assets Under Management (at fair market value):			
Institutional customers:			
Equity	$ 63.2	$ 63.4	$ 56.6
Fixed income	254.0	243.8	234.7
Real estate	35.0	34.5	31.9
Institutional customers(1)	352.2	341.7	323.2
Retail customers:			
Equity	118.0	117.0	94.2
Fixed income	52.7	51.5	47.6
Real estate	2.2	2.2	2.0
Retail customers(2)	172.9	170.7	143.8
General account:			
Equity	9.0	8.9	7.8
Fixed income	355.4	347.2	364.0
Real estate	1.4	1.4	1.5
General account	365.8	357.5	373.3
Total assets under management	$ 890.9	$ 869.9	$ 840.3

(1) Consists of third-party institutional assets and group insurance contracts.
(2) Consists of: (a) individual mutual funds and variable annuities and variable life insurance separate account assets; (b) funds invested in proprietary mutual funds through our defined contribution plan products; and (c) third-party sub-advisory relationships. Fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance are included in the general account.

The following table sets forth the component changes in assets under management by asset source for the periods indicated.

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Twelve Months Ended March 31, 2014
	(in billions)		
Institutional Customers:			
Beginning Assets Under Management	$ 341.7	$ 313.7	$ 323.2
Net additions (withdrawals), excluding money market activity:			
Third party	1.9	6.9	14.4
Affiliated	(0.3)	0.2	(0.9)
Total	1.6	7.1	13.5
Market appreciation	9.1	2.9	16.5
Other increases (decreases)(1)	(0.2)	(0.5)	(1.0)
Ending Assets Under Management	$ 352.2	$ 323.2	$ 352.2
Retail Customers:			
Beginning Assets Under Management	$ 170.7	$ 138.7	$ 143.8
Net additions (withdrawals), excluding money market activity:			
Third party	0.2	1.8	2.8
Affiliated	(0.5)	(3.4)	4.5
Total	(0.3)	(1.6)	7.3
Market appreciation	2.8	7.0	22.5
Other increases (decreases)(1)	(0.3)	(0.3)	(0.7)
Ending Assets Under Management	$ 172.9	$ 143.8	$ 172.9
General Account:			
Beginning Assets Under Management	$ 357.5	$ 374.6	$ 373.3
Net additions (withdrawals), excluding money market activity:			
Third party	0.0	0.0	0.0
Affiliated(2)	2.0	6.7	2.7
Total	2.0	6.7	2.7
Market appreciation	8.0	3.7	1.5
Other increases (decreases)(1)	(1.7)	(11.7)	(11.7)
Ending Assets Under Management	$ 365.8	$ 373.3	$ 365.8

(1) Includes the effect of foreign exchange rate changes, net money market activity and transfers (to)/from the Retirement segment as a result of changes in the client contract form. The impact from foreign currency fluctuations, which primarily impact the general account, resulted in gains of $0.5 billion and losses of $(10.6) billion for the three months ended March 31, 2014 and 2013, respectively and losses of $(9.9) billion for the twelve months ended March 31, 2014.

(2) General account affiliated net additions (withdrawals) includes net additions of $7.9 billion from the three months ended March 31, 2013 from the acquisition of the Hartford Life Business on January 2, 2013.

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Strategic Investments

The following table sets forth the strategic investments of the Asset Management segment at carrying value (including the value of derivative instruments used to mitigate equity market and currency risk) by asset class and source as of the dates indicated.

	March 31, 2014	December 31, 2013
	(in millions)	
Co-Investments:		
Real estate	$ 351	$ 387
Fixed income	102	47
Seed Investments:		
Real estate	31	31
Public equity	235	186
Fixed income	192	225
Loans Secured by Investor Equity Commitments or Fund Assets:		
Real estate secured by investor equity	0	25
Total	$ 911	$ 901

The $10 million increase in strategic investments was primarily driven by earnings on our co-investments and seed investments, partially offset by net returns of capital.

U.S. Individual Life and Group Insurance Division

Individual Life

Operating Results

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

	Three Months Ended March 31, 2014	2013
	(in millions)	
Operating results:		
Revenues	$ 1,296	$ 1,155
Benefits and expenses	1,171	1,018
Adjusted operating income	125	137

Realized investment gains (losses), net, and related adjustments	327	(161)
Related charges	(82)	2
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 370	$ (22)

On January 2, 2013, we acquired The Hartford s individual life insurance business (the Hartford Life Business) through a reinsurance transaction. We expect total pre-tax integration costs of approximately $120 million, inclusive of capitalized expenses, to be incurred, including approximately $60 million during 2014, of which $8 million is reflected in the first quarter. Integration costs incurred to date total $62 million. After integration is complete, we expect annual cost savings of approximately $90 million and, as of March 31, 2014, we have achieved approximately 67% of this annual savings on a run rate basis. Actual integration costs may exceed, and actual cost savings may fall short of, such expectations.

Adjusted Operating Income

Adjusted operating income decreased $12 million, primarily reflecting less favorable mortality experience, net of reinsurance and inclusive of reserve updates for guaranteed minimum death benefits, partially offset by a higher net contribution from investment results driven by higher income from non-coupon investments and higher asset balances.

Revenues, Benefits and Expenses

Revenues, as shown in the table above under Operating Results, increased $141 million. Net investment income increased $69 million, reflecting more favorable results from non-coupon investments, higher asset balances resulting from business growth and increased unaffiliated reserve financing, which was offset by higher interest expense, as discussed below. Policy charges and fees, asset management and service fees and other income increased $51 million, driven by growth in our universal life insurance business, an increase in the amortization of unearned revenue reserves reflecting the impact of changes in the estimated profitability of the business due to less favorable market performance relative to our assumptions, and increased affiliated reserve financing, which was offset by higher interest expense, as discussed below.

Benefits and expenses, as shown in the table above under Operating Results, increased $153 million. Policyholders benefits, including interest credited to account balances, increased $93 million, primarily reflecting universal life business growth, less favorable mortality experience and updates of reserves for guaranteed minimum death benefits. Interest expense increased $28 million related to financing transactions with offsets in revenue, as discussed above. The amortization of DAC increased $25 million reflecting the impact of changes in the estimated profitability of the business due to less favorable market performance relative to our assumptions.

Sales Results

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

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Prudential Agents	Third Party	Total	Prudential Agents	Third Party	Total
			(in millions)			
Variable Life	$ 5	$ 4	$ 9	$ 3	$ 6	$ 9
Universal Life(1)	9	62	71	11	146	157
Term Life	8	34	42	11	39	50
Total	$ 22	$ 100	$ 122	$ 25	$ 191	$ 216

(1) Single pay life annualized new business premiums, which include 10% of excess (unscheduled) premiums, represented approximately 13% and 38% of Universal Life annualized new business premiums for the three months ended March 31, 2014 and 2013, respectively.

Annualized new business premiums decreased $94 million, primarily driven by lower sales of universal life insurance products as a result of recent pricing and other actions taken to manage sales of products with secondary, or no lapse , guarantees.

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Group Insurance

Operating Results

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in millions)	
Operating results:		
Revenues	$ 1,362	$ 1,402
Benefits and expenses	1,356	1,393
Adjusted operating income	6	9
Realized investment gains (losses), net, and related adjustments	17	(3)
Related charges	(2)	0
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 21	$ 6

Adjusted Operating Income

Adjusted operating income decreased $3 million driven by a decline from group disability claims experience, mainly due to higher claim severity, and increased expenses, including costs to support business initiatives, partially offset by an increase in income from non-coupon investments.

Revenues, Benefits and Expenses

Revenues, as shown in the table above under Operating Results, decreased by $40 million. The decrease reflects $60 million of lower premiums for both our group disability and group life businesses driven by an increase in case lapses resulting from enhanced discipline for the pricing of contract renewals. Partially offsetting these decreases was a $16 million increase in net investment income primarily from non-coupon investments.

Benefits and expenses, as shown in the table above under Operating Results, decreased by $37 million. Policyholders benefits, including the change in reserves, decreased $64 million, driven by declines for both our group life and group disability businesses. The decline in our group life business reflects increased lapses as well as a favorable reserve refinement. The decline in our group disability business reflects an increase in case lapses, partially offset by higher claim severity. General and administrative expenses increased $23 million including an increase in litigation reserves and costs to support business initiatives.

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Benefits and Expense Ratios

The following table sets forth the Group Insurance segment s benefits and administrative operating expense ratios for the periods indicated.

	Three Months Ended March 31,	
	2014	2013
Benefits ratio(1):		
Group life	89.6%	92.2%
Group disability	100.5%	94.4%
Administrative operating expense ratio(2):		
Group life	11.2%	9.2%
Group disability	29.0%	26.7%

(1) Ratio of policyholder benefits to earned premiums, policy charges and fee income.
(2) Ratio of general and administrative expenses (excluding commissions) to gross premiums plus policy charges and fee income.

The group life benefits ratio improved 2.6 percentage points primarily driven by a favorable reserve refinement. The group disability benefits ratio deteriorated 6.1 percentage points primarily driven by higher claim severity. The group life administrative operating expense ratio deteriorated 2.0 percentage points primarily due to higher operating expenses, as discussed above. The group disability administrative operating expense ratio deteriorated 2.3 percentage points reflecting a decline in premiums and an increase in operating expenses associated with our claims management process.

Sales Results

The following table sets forth the Group Insurance segment s annualized new business premiums for the periods indicated.

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Annualized new business premiums(1):		
Group life	$ 137	$ 148
Group disability	33	45
Total	$ 170	$ 193

(1) Amounts exclude new premiums resulting from rate changes on existing policies, from additional coverage under our Servicemembers Group Life Insurance contract and from excess premiums on group universal life insurance that build cash value but do not purchase face amounts.

Total annualized new business premiums decreased $23 million primarily driven by enhancements in our pricing discipline for both group life and group disability products.

International Insurance Division

Foreign Currency Exchange Rate Movements and Related Hedging Strategies

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

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The operations of our International Insurance Division are subject to currency fluctuations that can materially affect our U.S. dollar-equivalent earnings from period to period, even if earnings on a local currency basis are relatively constant. We enter into forward currency derivative contracts as part of our strategy to effectively fix the currency exchange rates for a portion of our prospective non-U.S. dollar-denominated earnings streams, thereby reducing earnings volatility from foreign currency exchange rate movements. The forward currency hedging program is primarily associated with our insurance operations in Japan and Korea. Separately, our Japanese insurance operations offer a variety of non-yen denominated products that are supported by investments in corresponding currencies. While these non-yen denominated assets and liabilities are economically matched, the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements differs, resulting in volatility in reported U.S. GAAP earnings. For further information on the hedging strategies used to mitigate the risks of foreign currency exchange rate movements on earnings as well as the U.S. GAAP earnings impact from products denominated in non-local currencies, see Impact of foreign currency exchange rate movements on earnings.

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

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

	March 31, 2014	**December 31, 2013**
	(in billions)	
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent earnings:		
Forward currency hedging program(1)	$ 2.4	$ 2.7
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity:		
U.S. dollar-denominated assets held in yen-based entities(2):		
Available-for-sale U.S. dollar-denominated investments, at amortized cost	10.0	8.1
Held-to-maturity U.S. dollar-denominated investments, at amortized cost	0.2	0.2
Other	0.1	0.1
Subtotal	10.3	8.4
Yen-denominated liabilities held in U.S. dollar-based entities(3)	0.8	0.8
Dual currency and synthetic dual currency investments(4)	0.8	0.9
Total instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity	11.9	10.1
Total hedges	$ 14.3	$ 12.8

(1) Represents the notional amount of forward currency contracts outstanding.
(2) Excludes $27.4 billion and $27.6 billion as of March 31, 2014 and December 31, 2013, respectively, of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations.
(3) The yen-denominated liabilities are reported in Corporate and Other operations.
(4) Dual currency and synthetic dual currency investments are held by our yen-based entities in the form of fixed maturities and loans with a yen-denominated principal component and U.S. dollar-denominated interest income. The amounts shown represent the present value of future U.S. dollar cash flows.

Impact of foreign currency exchange rate movements on earnings

Forward currency hedging program

The financial results of our International Insurance segment reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segment s non-U.S. dollar-denominated earnings are translated at fixed currency exchange rates. The fixed rates are determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment s U.S. dollar-equivalent earnings. Pursuant to this program, Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings for certain currencies in exchange for U.S. dollars at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-U.S. dollar-denominated earnings are expected to be generated. In establishing the level of non-U.S. dollar-denominated earnings that will be hedged through this program, we exclude the anticipated level of U.S. dollar-denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of non-yen denominated earnings that will be generated by non-yen denominated products and investments. As of March 31, 2014, we have hedged 100% of expected yen-based earnings for 2014, and 88% and 37% of expected yen-based earnings for 2015 and 2016, respectively. To the extent currently unhedged, our International Insurance segment s future expected U.S. dollar-equivalent earnings will be impacted by yen exchange rate movements.

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

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

	Three Months Ended March 31,	
	2014	**2013**
	(in millions)	
International Insurance Segment:		
Impact of intercompany arrangement(1)	$ 73	$ 40
Corporate and Other operations:		
Impact of intercompany arrangement(1)	(73)	(40)
Settlement gains/(losses) on forward currency contracts	77	36
Net benefit (detriment) to Corporate and Other operations	4	(4)
Net impact on consolidated revenues and adjusted operating income	$ 77	$ 36

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

As of March 31, 2014 and December 31, 2013, the notional amounts of these forward currency contracts were $2.9 billion and $3.3 billion, respectively, of which $2.4 billion and $2.7 billion, respectively, were related to our Japanese insurance operations.

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

Our international insurance operations primarily offer products denominated in local currency; however, several of our international insurance operations, most notably our Japanese operations, also offer products denominated in non-local currencies, primarily comprised of U.S. and Australian dollar-denominated products. The non-yen denominated insurance liabilities related to these products are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While the impact from foreign currency exchange rate movements on these non-yen denominated assets and liabilities is economically matched, the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements differs, resulting in volatility in U.S. GAAP earnings. For example, unrealized gains and losses on available-for-sale investments, including those arising from foreign currency exchange rate movements, are recorded in AOCI, whereas the non-yen denominated liabilities are remeasured for foreign currency exchange rate movements, and the related changes in value are recorded in earnings within Other income. Investments designated as held-to-maturity under U.S. GAAP are recorded at amortized cost on the balance sheet, but are remeasured for foreign currency exchange rate movements, with the related change in value recorded in earnings within Other income. Due to this non-economic volatility that is reflected in U.S. GAAP earnings, the gains and losses resulting from the remeasurement of these non-yen denominated liabilities, and certain related non-yen denominated assets, are excluded from adjusted operating income and included in Realized investment gains (losses), net, and related adjustments. For the three months ended March 31, 2014 and 2013, Realized investment gains (losses), net, and related adjustments included net gains of $217 million and net losses of $2,401, respectively, reflecting the remeasurement of these non-yen denominated insurance liabilities and certain related non-yen denominated assets.

The following table presents these non-yen denominated insurance liabilities and related non-yen denominated assets subject to remeasurement through earnings within our international insurance operations as of March 31, 2014, as well as the impact to pre-tax U.S. GAAP earnings assuming a hypothetical 5% depreciation/appreciation in value of the yen relative to the applicable currency, based on balances as of March 31, 2014.

As discussed in Note 1 to our Unaudited Interim Consolidated Financial Statements, Gibraltar Life s current period results of operations represent earnings for the three months ended February 28, 2014, and Gibraltar Life s current period assets and liabilities represent balances as of February 28, 2014.

	Balances subject to remeasurement, as of March 31, 2014			Hypothetical increase (decrease) in pre-tax GAAP earnings(2)	
	Assets(1)	Liabilities	Net Liabilities(1)	5% depreciation	5% appreciation
			(in billions)		
U.S. dollar-denominated products(3)	$ 3.7	$ 20.3	$ 16.6	$ (0.8)	$ 0.8
Australian dollar-denominated products	0.6	8.2	7.6	(0.4)	0.4
Euro-denominated products	0.1	0.3	0.2	(0.0)	0.0
Total	$ 4.4	$ 28.8	$ 24.4	$ (1.2)	$ 1.2

(1) Includes investments designated as held-to-maturity that are remeasured for foreign currency exchange rate movements with the change in value recorded in U.S. GAAP earnings. Excludes $27.4 billion of available-for-sale investments supporting these non-yen denominated insurance liabilities for which the impact from foreign currency exchange rate movements is recorded in AOCI.
(2) The U.S. GAAP earnings impacts would largely be offset by a corresponding increase (decrease) in AOCI.
(3) Excludes $7.2 billion of insurance liabilities for U.S. dollar-denominated products associated with Prudential of Japan. These liabilities are coinsured to an affiliated U.S. domiciled insurance entity and supported by U.S. dollar-denominated assets and, as a result, are not subject to the remeasurement mismatch described above.

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International Insurance

Operating Results

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations excluding the effect of foreign currency fluctuations were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 82 yen per U.S. dollar and Korean won at a rate of 1150 won per U.S. dollar, both of which were determined in connection with the foreign currency income hedging program discussed above. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is generally reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the Sales Results section below reflect translation based on these same uniform exchange rates.

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in millions)	
Operating results:		
Revenues:		
Life Planner operations	$ 2,479	$ 2,443
Gibraltar Life and Other operations	2,596	3,907
	5,075	6,350
Benefits and expenses:		
Life Planner operations	2,060	2,021
Gibraltar Life and Other operations	2,178	3,452
	4,238	5,473
Adjusted operating income:		
Life Planner operations	419	422
Gibraltar Life and Other operations	418	455
	837	877
Realized investment gains (losses), net, and related adjustments(1)	535	(2,542)
Related charges	(9)	(51)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(72)	217
Change in experience-rated contractholder liabilities due to asset value changes	72	(217)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	4	(65)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,367	$ (1,781)

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

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Adjusted Operating Income

Adjusted operating income from our Life Planner operations decreased $3 million, including a net unfavorable impact of $6 million from currency fluctuations. Results for the first quarter of 2014 also include a $16 million net unfavorable impact primarily from reserve refinements in our Korean operations.

Excluding the effect of the items discussed above, adjusted operating income increased $19 million, primarily reflecting the growth of business in force driven by sales results and continued strong persistency, partially offset by the impact of less favorable claims experience, including an increase to reserves for guaranteed minimum death benefits driven by equity market movements in Japan.

Adjusted operating income from our Gibraltar Life and Other operations decreased $37 million, including a net unfavorable impact of $9 million from currency fluctuations. Results for the first quarter of 2013 also included a $66 million gain on our investment, through a consortium, in China Pacific Group, for which our remaining shares were sold in January 2013, as well as $3 million of integration costs relating to the acquisition of the Star and Edison Businesses.

Excluding the effect of the items discussed above, adjusted operating income from our Gibraltar Life and Other operations increased $35 million, primarily reflecting lower expenses, net business growth and the absence of certain policyholder dividend refinements that were made in the first quarter of 2013. Partially offsetting these variances were less favorable mortality experience in the current period and a lesser impact from accelerated earnings on surrenders of fixed annuities denominated in Australian and U.S. dollars caused by the depreciation of these currencies relative to the Japanese yen.

Revenues, Benefits and Expenses

Revenues from our Life Planner operations, as shown in the table above under Operating Results, increased $36 million including a net unfavorable impact of $161 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $197 million. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $135 million, driven by growth of business in force. Net investment income increased $46 million, primarily reflecting investment portfolio growth partly offset by the impact from lower reinvestment rates.

Benefits and expenses from our Life Planner operations, as shown in the table above under Operating Results, increased $39 million including a net favorable impact of $155 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $194 million. Policyholder benefits, including changes in reserves, increased $169 million, primarily driven by the impact of less favorable claims experience, including an increase to reserves for guaranteed minimum death benefits driven by equity market movements in Japan as well as reserve refinements in our Korean operations, as discussed above. Amortization of DAC increased $19 million, reflecting business growth and the impact of equity market movements in Japan.

Revenues from our Gibraltar Life and Other operations decreased $1,311 million including a net unfavorable impact of $105 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life decreased $1,206 million, driven by a $1,126 million decrease in premiums and policy charges and fee income. The decrease in premiums and policy charges and fee income primarily reflects the discontinuation of bank channel sales of yen-denominated single premium reduced death benefit whole life products and recent pricing actions taken on certain retirement and protection products. The decrease in revenues also includes the impact of $66 million from the sale of our investment in China Pacific Group during the first quarter of 2013, as discussed above.

Benefits and expenses of our Gibraltar Life and Other operations decreased $1,274 million including a net favorable impact of $96 million from currency fluctuations. Excluding the impact of currency fluctuations,

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benefits and expenses decreased $1,178 million. Policyholder benefits, including changes in reserves, decreased $1,110 million, with a related decline in premiums and policy charges and fee income as discussed above, driven by the discontinuation of bank channel sales of yen-denominated single premium reduced death benefit whole life products and recent pricing actions taken on certain retirement and protection products.

Sales Results

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

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Annualized new business premiums:		
On an actual exchange rate basis:		
Life Planner operations	$ 331	$ 345
Gibraltar Life	361	459
Total	$ 692	$ 804
On a constant exchange rate basis:		
Life Planner operations	$ 369	$ 365
Gibraltar Life	403	476
Total	$ 772	$ 841

The amount of annualized new business premiums for any given period can be significantly impacted by several factors, including but not limited to, changes in credited interest rates for certain products and other product modifications, changes in tax laws, changes in life insurance regulations or changes in the competitive environment. Sales volume may increase or decrease prior to such changes becoming effective, and then fluctuate in the other direction following such changes.

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

	Three Months Ended March 31, 2014					Three Months Ended March 31, 2013				
	Life	Accident & Health	Retirement(1)	Annuity	Total	Life	Accident & Health	Retirement(1)	Annuity	Total
					(in millions)					
Life Planner operations	$ 182	$ 32	$ 137	$ 18	$ 369	$ 169	$ 33	$ 149	$ 14	$ 365
Gibraltar Life:										
Life Consultants	99	22	28	33	182	120	26	44	22	212
Banks(2)	105	1	2	46	154	198	0	2	17	217
Independent Agency	23	7	19	18	67	21	6	15	5	47

Subtotal	227	30	49	97	403	339	32	61	44	476
Total	$ 409	$ 62	$ 186	$ 115	$ 772	$ 508	$ 65	$ 210	$ 58	$ 841

(1) Includes retirement income, endowment and savings variable universal life.

(2) Single pay life annualized new business premiums, which include 10% of first year premiums, and 3-year limited pay annualized new business premiums, which include 100% of new business premiums, represented 5% and 51%, respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended March 31, 2014, and 59% and 32%,

respectively, of total bank distribution channel annualized new business premiums, excluding annuity products, for the three months ended March 31, 2013. Single pay and limited pay products generally have less death benefit protection per premium paid than more traditional recurring premium products.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $4 million. Results reflected higher sales of whole life protection products in our Brazilian operations and of whole life and variable annuity products in our Korean operations. These increases were partially offset by a small net decline in sales in Japan, as results in the first quarter of 2013 reflected accelerated sales of certain yen-denominated products in anticipation of pricing actions taken in the second quarter of 2013, as well as a decline in sales of U.S. dollar-denominated retirement products in Taiwan.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operations decreased $73 million. Bank channel sales declined $63 million due to the discontinuation of our yen-denominated single premium reduced death benefit whole life products in the fourth quarter of 2013, partially offset by higher sales of U.S. dollar-denominated whole life products and annuity products. Life Consultant sales declined $30 million due to pricing actions taken in the second quarter of 2013 on certain retirement and protection products, partially offset by higher sales of Australian dollar-denominated annuity products. Independent Agency sales increased $20 million primarily driven by higher sales of Australian dollar-denominated annuity products.

Corporate and Other

As described in our Annual Report on Form 10-K for the year ended December 31, 2013 under Business Financial Services Businesses Corporate and Other, Corporate and Other includes corporate operations, after allocations to our business segments, and divested businesses except those that qualify for discontinued operations accounting treatment under U.S. GAAP.

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in millions)	
Operating results:		
Capital debt interest expense	$ (146)	$ (175)
Operating debt interest expense, net of investment income	(44)	(49)
Pension and employee benefits	44	67
Other corporate activities(1)	(196)	(157)
Adjusted operating income	(342)	(314)
Realized investment gains (losses), net, and related adjustments	(1,159)	604
Related charges	0	(12)
Divested businesses	73	29
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	0	2
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (1,428)	$ 309

(1) Includes consolidating adjustments.

The loss from Corporate and Other operations, on an adjusted operating income basis, increased $28 million. Higher net charges of $39 million from other corporate activities were primarily driven by increased retained corporate expenses, including corporate advertising and costs related to enhanced regulatory supervision, as well as an unfavorable comparative impact from experience updates on our accrual for payments arising from use of new Social Security Master Death File matching criteria to identify deceased policy and contract holders. Capital debt interest expense decreased $29 million due to replacing higher coupon debt with new issuances at lower rates and the absence of the accelerated recognition of a portion of the deferred bond issuance costs on redeemed capital debt recorded in the first quarter of 2013.

Results from pension and employee benefits decreased $23 million. Income from our qualified pension plan decreased $27 million driven by the effect on expected return from the decline in value of fixed income plan assets and the impact of a higher discount rate on the interest cost of the plan obligation, as well as the transfer of assets supporting pension benefits completed at the end of 2013, as discussed in our Annual Report on Form 10-K for the year ended December 31, 2013, under Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment Corporate and Other.

Capital Protection Framework

Corporate and Other operations includes the results related to our Capital Protection Framework, which includes the capital hedge program. The capital hedge program broadly addresses the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios, using equity-based derivatives. The hedging costs related to this program were $11 million and $13 million for the three months ended March 31, 2014 and 2013, respectively.

We also manage certain risks associated with our variable annuity products through our living benefit hedging program, which is described under U.S. Retirement Solutions and Investment Management Division Individual Annuities.

In addition, we may choose to manage certain capital market related risk associated with various operations of the Financial Services Businesses through capital management strategies other than hedging of particular exposures. Realized investment gains (losses), net and related adjustments includes net losses of $1,055 million and net gains $429 million for the three months ended March 31, 2014 and 2013 respectively, resulting from our decision to utilize these capital management strategies to manage a portion of our interest rate risk. The capital consequences associated with this decision have been factored into our Capital Protection Framework.

Through our Capital Protection Framework, we hold on-balance sheet capital and maintain access to committed sources of capital to meet capital needs related to these hedging programs.

We assess the composition of these hedging programs on an ongoing basis, and we may change them from time to time based on our evaluation of our risk position or other factors. For more information on our Capital Protection Framework, see Liquidity and Capital Resources.

Results of Operations of Closed Block Business

We established the Closed Block Business effective as of the date of demutualization. The Closed Block Business includes our in force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies, as well as other assets and equity and related liabilities that support these policies. We no longer offer these traditional domestic participating policies. See Note 6 to the Unaudited Interim Consolidated Financial Statements and Closed Block Business for additional details.

Each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. Although Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum

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future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block Business will include any change in our policyholder dividend obligation that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition to the actual policyholder dividends declared by the Board of Directors of Prudential Insurance.

As of March 31, 2014, the excess of actual cumulative earnings over the expected cumulative earnings was $986 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $4,457 million at March 31, 2014, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in AOCI.

Operating Results

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

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
	(in millions)	
U.S. GAAP results:		
Revenues	$ 1,566	$ 1,519
Benefits and expenses	1,553	1,500
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 13	$ 19

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

Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $6 million. Results for the first quarter of 2014 reflect an increase in net realized investment gains of $40 million primarily due to higher trading gains from fixed maturities and equity securities, partially offset by net unfavorable changes in the value of derivatives. Net investment income increased $12 million primarily reflecting higher income from non-coupon investments, partially offset by the impact of lower reinvestment rates. As a result of the above and other variances, a $99 million policyholder dividend obligation expense was recorded in the first quarter of 2014, compared to a $35 million expense in the first quarter of 2013. As noted above, as of March 31, 2014, the excess of actual cumulative earnings over the expected cumulative earnings was $986 million. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block Business, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses.

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Revenues, Benefits and Expenses

Revenues, as shown in the table above under Operating Results, increased $47 million primarily driven by a $40 million increase in net realized investment gains and a $12 million increase in net investment income, as discussed above. These favorable items were partially offset by lower premiums, with a related decrease in changes in reserves, primarily due to the expected in force decline as policies terminate.

Benefits and expenses, as shown in the table above under Operating Results, increased $53 million primarily driven by a $74 million increase in dividends to policyholders. The increase in dividends to policyholders includes a $64 million increase in the policyholder dividend obligation expense reflecting higher cumulative earnings and a $10 million increase in dividends paid and accrued to policyholders as a result of an increase in the 2014 dividend scale, partially offset by a decline in policies in force. This unfavorable item was partially offset by a $23 million decrease in policyholders benefits, including changes in reserves, due to the in force decline as policies terminate.

Income Taxes

Our income tax provision, on a consolidated basis, amounted to an income tax expense of $473 million in the first quarter of 2014 compared to a benefit of $827 million in the first quarter of 2013. First quarter income taxes for 2014 and 2013 include $17 million and $108 million, respectively, of an additional U.S. tax expense related to the realization of a portion of the local deferred tax assets existing on the opening day balance sheet for the Star and Edison Businesses and Prudential Gibraltar Financial Life Insurance Company, Ltd (Prudential Gibraltar). The U.S. tax expense in the year ago quarter is reflective of a change in repatriation assumption for Gibraltar Life and Prudential Gibraltar. During the first quarter of 2013, we determined that in addition to U.S. GAAP earnings, we would repatriate an additional amount from Gibraltar Life and Prudential Gibraltar, but that such additional amount would not exceed the deferred tax assets recorded in the Statement of Financial Position as of the acquisition date for Prudential Gibraltar and the Star and Edison Businesses. The local utilization of the deferred tax asset coupled with the repatriation assumption related to the applicable earnings of our Japanese entities creates the effect of a double tax for U.S. GAAP purposes, whereas only one incidence of tax expense will actually be paid.

Excluding the impact of the double tax discussed above, the expense associated with income taxes increased $1,391 million, driven primarily by pre-tax income in the first quarter of 2014 compared with a pre-tax loss in the first quarter of 2013. In addition, the tax rate for the current quarter is based on the anticipated full year effective tax rate with certain adjustments for discrete items, while the tax rate for first quarter of 2013 was limited to the tax benefit based on the first quarter of 2013 loss, adjusted for discrete items and expected full year permanent differences.

For additional information regarding income taxes, see Note 12 to the Unaudited Interim Consolidated Financial Statements.

Discontinued Operations

Included within net income are the results of businesses which are reflected as discontinued operations under U.S. GAAP. Income from discontinued operations, net of taxes, was $4 million and $1 million for the three months ended March 31, 2014 and 2013, respectively.

For additional information regarding discontinued operations see Note 3 to the Unaudited Interim Consolidated Financial Statements.

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Divested Businesses

Our income from continuing operations includes results from several businesses that have been or will be sold or exited that do not qualify for discontinued operations accounting treatment under U.S. GAAP. The results of these divested businesses are reflected in our Corporate and Other operations, but are excluded from adjusted operating income. A summary of the results of these divested businesses that have been excluded from adjusted operating income is as follows for the periods indicated:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Real Estate and Relocation Services	$ 0	$ 26
Long-Term Care	76	12
Wealth Management Services	0	(4)
Individual Health Insurance	(1)	(5)
Financial Advisory	(1)	(1)
Other	(1)	1
Total divested businesses income excluded from adjusted operating income	$ 73	$ 29

Real Estate and Relocation Services. Results for the three months ended March 31, 2013 included gains associated with the sales of loans previously made to real estate brokerage franchises and income from equity method investments in real estate brokerage franchises, the majority of which investments were sold in the second half of 2013.

Long-Term Care. Results for the three months ended March 31, 2014 improved in comparison to the prior year period primarily from realized gains from derivatives used in duration management, driven by the impact of declining interest rates in the first quarter of 2014, and from realized gains on sales of equity securities.

Experience-Rated Contractholder Liabilities,

Trading Account Assets Supporting Insurance Liabilities and Other Related Investments

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

Our Retirement segment has two types of experience-rated products that are supported by TAASIL and other related investments. Fully participating products are those for which the entire return on underlying investments is passed back to the policyholders through a corresponding adjustment to the related liability. The

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

In our International Insurance segment, the experience-rated products are fully participating. As a result, the entire return on the underlying investments is passed back to policyholders through a corresponding adjustment to the related liability.

Adjusted operating income excludes net investment gains and losses on TAASIL, related derivatives and commercial mortgage and other loans. This is consistent with the exclusion of realized investment gains and losses with respect to other investments supporting insurance liabilities managed on a consistent basis. In addition, to be consistent with the historical treatment of charges related to realized investment gains and losses on investments, adjusted operating income also excludes the change in contractholder liabilities due to asset value changes in the pool of investments (including changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in Interest credited to policyholders account balances. The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

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

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Retirement Segment:		
Investment gains (losses) on:		
Trading account assets supporting insurance liabilities, net	$ 173	$ (122)
Derivatives	(46)	37
Commercial mortgages and other loans	(2)	(2)
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(115)	74
Net gains (losses)	$ 10	$ (13)
International Insurance Segment:		
Investment gains (losses) on trading account assets supporting insurance liabilities, net	$ (72)	$ 217
Change in experience-rated contractholder liabilities due to asset value changes	72	(217)
Net gains (losses)	$ 0	$ 0
Total:		
Investment gains (losses) on:		
Trading account assets supporting insurance liabilities, net	$ 101	$ 95
Derivatives	(46)	37
Commercial mortgages and other loans	(2)	(2)
Change in experience-rated contractholder liabilities due to asset value changes(1)(2)	(43)	(143)
Net gains (losses)	$ 10	$ (13)

(1) Decreases to contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of $13 million and $3 million as of March 31, 2014 and 2013, respectively. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

(2) Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are increases of $7 million and $12 million for the three months ended March 31, 2014 and 2013, respectively. As prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held for investment in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in fair value are reflected as a change in the liability to fully participating contractholders in the current period.

The net impacts for the Retirement segment of changes in experience-rated contractholder liabilities and investment gains and losses on trading account assets supporting insurance liabilities and other related investments reflect timing differences between the recognition of the mark-to-market adjustments and the recognition of the recovery of these adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities for partially participating products. These impacts also reflect the difference between the fair value of the underlying commercial mortgage and other loans and the amortized cost, less any valuation allowance, of these loans, as described above.

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value measurement establishes a framework that includes a three-level hierarchy used to classify the inputs used in measuring fair value. The level in the hierarchy within which the fair value falls is determined based on the lowest level input that is significant to the measurement. The fair values of assets and liabilities classified as Level 3 include at least one or more significant unobservable input in the measurement. See Note 13 to the Unaudited Interim Consolidated Financial Statements for an additional description of the valuation hierarchy levels.

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The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of the periods indicated, split between the Financial Services Businesses and Closed Block Business, and the portion of such assets and liabilities that are classified in Level 3 of the valuation hierarchy. See Note 13 to the Unaudited Interim Consolidated Financial Statements for the balances of assets and liabilities measured at fair value on a recurring basis by hierarchy level presented on a consolidated basis.

	As of March 31, 2014				As of December 31, 2013			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)	Total at Fair Value	Total Level 3(1)
	(in millions)							
Fixed maturities, available-for-sale	$ 251,059	$ 4,820	$ 44,262	$ 1,126	$ 243,654	$ 4,079	$ 43,212	$ 866
Trading account assets:								
Fixed maturities	24,441	567	174	9	23,469	511	185	9
Equity securities	2,120	655	155	116	2,219	722	157	120
All other(2)	2,066	7	0	0	1,250	6	0	0
Subtotal	28,627	1,229	329	125	26,938	1,239	342	129
Equity securities, available-for-sale	6,249	309	3,942	1	6,026	298	3,884	6
Commercial mortgage and other loans	124	0	0	0	158	0	0	0
Other long-term investments	1,382	1,219	156	149	1,595	1,396	(66)	0
Short-term investments	4,267	0	1,198	0	5,520	0	1,665	0
Cash equivalents	6,362	0	1,154	0	6,362	0	620	0
Other assets	140	4	85	0	131	4	85	0
Subtotal excluding separate account assets	298,210	7,581	51,126	1,401	290,384	7,016	49,742	1,001
Separate account assets	288,161	22,997	0	0	285,060	22,603	0	0
Total assets	$ 586,371	$ 30,578	$ 51,126	$ 1,401	$ 575,444	$ 29,619	$ 49,742	$ 1,001
Future policy benefits	$ 2,443	$ 2,443	$ 0	$ 0	$ 441	$ 441	$ 0	$ 0
Other liabilities(2)	670	6	438	0	2,201	5	6	0
Notes of consolidated VIEs	4,062	4,062	0	0	3,254	3,254	0	0
Total liabilities	$ 7,175	$ 6,511	$ 438	$ 0	$ 5,896	$ 3,700	$ 6	$ 0

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5.2% and 5.1% as of March 31, 2014 and December 31, 2013, respectively, for the Financial Services Businesses, and 2.7% and 2.0% as of March 31, 2014 and December 31, 2013, respectively, for the Closed Block Business.

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

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations and may require the application of a greater degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. The following sections provide information regarding certain assets and liabilities of our Financial Services Businesses and our Closed Block Business which are valued using Level 3 inputs and could have a significant impact on our results of operations.

Fixed Maturity and Equity Securities

Fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or indicative broker quotes. For certain private fixed maturity and equity securities, the internally-developed valuation model uses significant unobservable inputs and, accordingly, such securities are included in Level 3 of our fair value hierarchy. Level 3 fixed maturity securities included approximately $5.3 billion and $4.3 billion as of March 31, 2014 and December 31, 2013, respectively, of public fixed maturities, with values primarily based on indicative broker quotes, and approximately $1.2 billion as of both March 31, 2014 and December 31, 2013, of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and indicative quotes from market makers. These inputs are usually considered unobservable as not all market participants have access to this data.

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

Other Long-Term Investments

Other long-term investments classified in Level 3 primarily include real estate held in consolidated investment funds and fund investments where the fair value option has been elected. The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model. The appraisals also include replacement cost estimates and recent sales data as alternate methods of fair value. These appraisals and the related assumptions are updated at least annually. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments are reflected within Level 3. Consolidated real estate investment funds classified as Level 3 totaled approximately $0.4 billion and $0.5 billion as of March 31, 2014 and December 31, 2013, respectively. The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments are included within Level 3. Investments in these funds included in Level 3 totaled approximately $0.9 billion as of both March 31, 2014 and December 31, 2013.

Separate Account Assets

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

Variable Annuity Optional Living Benefit Features

Future policy benefits classified in Level 3 primarily include liabilities related to guarantees associated with the optional living benefit features of certain variable annuity contracts offered by our Individual Annuities segment, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB). These benefits are accounted for as embedded derivatives and carried at fair value with changes in fair value included in Realized investment gains (losses), net. The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers, less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, based on changing capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. These models utilize significant assumptions that are primarily unobservable, including assumptions as to lapse rates, NPR, utilization rates, withdrawal rates, mortality rates and equity market volatility. Future policy benefits classified as Level 3 were net liabilities of $2.4 billion and $0.4 billion as of March 31, 2014 and December 31, 2013, respectively. For additional information see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Notes of Consolidated VIEs

As discussed in Note 5 to the Unaudited Interim Consolidated Financial Statements, notes of consolidated VIEs represent non-recourse notes issued by certain asset-backed investment vehicles, primarily CLO s, which we are required to consolidate. We have elected the fair value option for these notes, which are valued based on broker quotes.

For additional information about the key estimates and assumptions used in our determination of fair value, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

Realized Investment Gains and Losses

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

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

The level of other-than-temporary impairments generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. We may also realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. For additional information regarding our policies regarding other-than-temporary-impairments for fixed maturity and equity securities, see Note 2 to the Company s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

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

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Accordingly, realized investment gains and losses from our derivative activities can contribute significantly to fluctuations in net income. For a further discussion of optional living benefit guarantees and related hedge positions in our Individual Annuities segment, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities above.

Adjusted operating income generally excludes Realized investment gains (losses), net, subject to certain exceptions. These exceptions primarily include realized investment gains or losses within certain of our businesses for which such gains or losses are a principal source of earnings, gains or losses associated with terminating hedges of foreign currency earnings and current period yield adjustments, and related charges and adjustments. Other-than-temporary impairments, interest rate related losses and credit related losses on sales (other than those related to certain of our businesses which primarily originate investments for sale or syndication to unrelated investors) are excluded from adjusted operating income.

The following table sets forth Realized investment gains (losses), net, by investment type for the Financial Services Businesses and Closed Block Business, as well as related charges and adjustments associated with the Financial Services Businesses, for the periods indicated. For additional details regarding adjusted operating income, which is our measure of performance for the segments of our Financial Services Businesses, see Note 11 to the Unaudited Interim Consolidated Financial Statements.

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Realized investment gains (losses), net:		
Financial Services Businesses	$ 71	$ (820)
Closed Block Business	137	97
Consolidated realized investment gains (losses), net	$ 208	$ (723)
Financial Services Businesses:		
Realized investment gains (losses), net:		
Fixed maturity securities	$ 196	$ 41
Equity securities	33	34
Commercial mortgage and other loans	8	12
Derivative instruments	(169)	(912)
Other	3	5
Total	$ 71	$ (820)
Related adjustments	(22)	(2,485)
Realized investment gains (losses), net, and related adjustments	49	(3,305)
Related charges	(57)	302
Realized investment gains (losses), net, and related charges and adjustments	$ (8)	$ (3,003)
Closed Block Business:		
Realized investment gains (losses), net:		
Fixed maturity securities	$ 61	$ 12
Equity securities	52	43
Commercial mortgage and other loans	0	1

Derivative instruments	24	42
Other	0	(1)
Total	$ 137	$ 97

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2014 to 2013 Three Month Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment gains in the first quarter of 2014 were $71 million, compared to net realized investment losses of $820 million in the first quarter of 2013.

Net realized gains on fixed maturity securities were $196 million in the first quarter of 2014, compared to net realized gains of $41 million in the first quarter of 2013, as set forth in the following table:

	Three Months Ended March 31,	
	2014	**2013**
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 322	$ 180
Private bond prepayment premiums	12	10
Total gross realized investment gains	334	190
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(10)	(59)
Gross losses on sales and maturities(1)	(109)	(70)
Credit related losses on sales	(19)	(20)
Total gross realized investment losses	(138)	(149)
Realized investment gains (losses), net Fixed Maturity Securities	$ 196	$ 41
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 213	$ 110

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

Net gains on sales and maturities of fixed maturity securities were $213 million and $110 million in the first quarter of 2014 and 2013, respectively, primarily driven by sales within our International Insurance segment. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the first quarter of 2014 and 2013.

Net realized gains on equity securities were $33 million in the first quarter of 2014 and included net gains on sales of equity securities of $41 million, primarily within our Corporate and Other segment, partially offset by other-than-temporary impairments of $8 million. Net realized gains on equity securities were $34 million in the first quarter of 2013 and included net gains on sales of equity securities of $41 million, primarily within our International Insurance segment, partially offset by other-than-temporary impairments of $7 million. See below for additional information regarding the other-than-temporary impairments of equity securities in the first quarter of 2014 and 2013.

Net realized losses on derivatives were $169 million in the first quarter of 2014, compared to net realized losses of $912 million in first quarter of 2013. The net derivative losses in 2014 primarily reflect net losses of $686 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts. Partially offsetting these losses were net gains of $437 million on interest rate derivatives used to manage duration as long-term interest rates decreased as well as net gains of $43 million primarily representing risk fees earned on synthetic guaranteed investment contracts in our Retirement business

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which are accounted for as derivatives under U.S. GAAP. The net derivative losses in the first quarter of 2013 primarily reflect net losses of $762 million on product related embedded derivatives and related hedge positions mainly associated with certain variable annuity contracts. Also contributing to the net derivative losses were $362 million on foreign currency derivatives used to hedge portfolio assets in our Japan business primarily due to the weakening of the Japanese yen against the U.S. dollar and other currencies. Partially offsetting these losses were net gains of $233 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, predominantly in Japan, due to the strengthening of the U.S. dollar against the Japanese yen.

Related adjustments include the portions of Realized investment gains (losses), net that are included in adjusted operating income and the portions of Other income and Net investment income that are excluded from adjusted operating income. These adjustments are made to arrive at Realized investment gains (losses), net, and related adjustments which are excluded from adjusted operating income. Results for the first quarter of 2014 include net negative related adjustments of $22 million driven by settlements on interest rate and currency swaps as well as the termination of swaps used to hedge foreign-denominated earnings, partially offset by the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations for which the foreign currency exposure is economically matched and offset in AOCI. Results for the first quarter of 2013 include net negative related adjustments of $2,485 million primarily driven by the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations, as discussed above. For additional information, see Results of Operations for Financial Services Businesses by Segment International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of products denominated in non-local currencies.

Charges that relate to Realized investment gains (losses), net are also excluded from adjusted operating income, and may be reflected as net charges or net benefits. Results for the first quarter of 2014 include net related charges of $57 million, compared to net related benefits of $302 million for the first quarter of 2013. Both periods results were driven by the impact of derivative activity on the amortization of deferred policy acquisition and other costs and certain policyholder reserves. For additional information, see Note 11 to the Unaudited Interim Consolidated Financial Statements.

During the first quarter of 2014, we recorded other-than-temporary impairments of $18 million in earnings, compared to other-than-temporary impairments of $67 million recorded in earnings in the first quarter of 2013. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 6	$ 50
Private fixed maturity securities	4	9
Total fixed maturity securities	10	59
Equity securities	8	7
Other invested assets(2)	0	1
Total	$ 18	$ 67

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

(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships and real estate investments.

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)		
Due to credit events or adverse conditions of the respective issuer(2)	$ 7	$ 19
Due to other accounting guidelines	3	40
Total	$ 10	$ 59

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

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

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

Closed Block Business

For the Closed Block Business, net realized investment gains in the first quarter of 2014, were $137 million, compared to net realized investment gains of $97 million in the first quarter of 2013.

Net realized gains on fixed maturity securities were $61 million in the first quarter of 2014, compared to net realized gains of $12 million in the first quarter of 2013, as set forth in the following table:

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 83	$ 32
Private bond prepayment premiums	8	8

Total gross realized investment gains	91	40
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(6)	(11)
Gross losses on sales and maturities(1)	(18)	(11)
Credit related losses on sales	(6)	(6)
Total gross realized investment losses	(30)	(28)
Realized investment gains (losses), net Fixed Maturity Securities	$ 61	$ 12
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 65	$ 21

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

Net realized gains on equity securities were $52 million and $43 million in the first quarter of 2014 and 2013, respectively, primarily driven by net gains on sales of equity securities. See below for additional information regarding the other-than-temporary impairments of equity securities in the first quarter of 2014 and 2013.

Net realized gains on derivatives were $24 million in 2014, compared to net realized gains of $42 million in 2013. Derivative gains in 2014 primarily reflect net gains of $19 million on interest rate derivatives primarily used to manage duration and net gains of $14 million on TBA forward contracts as interest rates declined, partially offset by net losses of $6 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened against other currencies. Derivative gains in the first quarter of 2013 primarily reflect net gains of $46 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar strengthened against the Euro and other currencies.

During the first quarter of 2014, we recorded other-than-temporary impairments of $8 million in earnings, compared to other-than-temporary impairments of $13 million recorded in earnings in the first quarter of 2013. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

	Three Months Ended March 31,	
	2014	2013
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 5	$ 6
Private fixed maturity securities	1	5
Total fixed maturity securities	6	11
Equity securities	2	0
Other invested assets(2)	0	2
Total	$ 8	$ 13

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

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

Due to credit events or adverse conditions of the respective issuer(2)	$ 5	$ 9
Due to other accounting guidelines	1	2
Total	$ 6	$ 11

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

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

Fixed maturity other-than-temporary impairments in the first quarter of 2014 were concentrated in asset-backed securities collateralized by sub-prime mortgages and in the consumer cyclical and finance sectors within corporate securities. Fixed maturity other-than-temporary impairments in the first quarter of 2013 were concentrated in asset-backed securities collateralized by sub-prime mortgages and in the consumer non-cyclical and utility sectors within corporate securities. These other-than-temporary impairments reflect adverse financial conditions of the respective issuers.

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

General Account Investments

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, policy loans, and non-coupon investments, which include equity securities and other long-term investments such as joint ventures and limited partnerships, real estate held through direct ownership and seed money investments in separate accounts. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our Asset Management segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor.

The following tables set forth the composition of the investments of our general account apportioned between the Financial Services Businesses and the Closed Block Business as of the dates indicated.

	March 31, 2014			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed maturities:				
Public, available-for-sale, at fair value	$ 218,767	$ 28,285	$ 247,052	61.7%
Public, held-to-maturity, at amortized cost	2,481	0	2,481	0.6
Private, available-for-sale, at fair value	31,980	15,977	47,957	12.0
Private, held-to-maturity, at amortized cost	794	0	794	0.2
Trading account assets supporting insurance liabilities, at fair value	20,935	0	20,935	5.2
Other trading account assets, at fair value	1,364	329	1,693	0.4
Equity securities, available-for-sale, at fair value	6,242	3,942	10,184	2.5
Commercial mortgage and other loans, at book value	32,308	9,921	42,229	10.6
Policy loans, at outstanding balance	6,862	4,971	11,833	3.0
Other long-term investments(1)	7,326	2,084	9,410	2.3

Short-term investments	4,494	1,398	5,892	1.5
Total general account investments	333,553	66,907	400,460	100.0%
Invested assets of other entities and operations(2)	8,008	0	8,008	
Total investments	$ 341,561	$ 66,907	$ 408,468	

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	December 31, 2013			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed maturities:				
Public, available-for-sale, at fair value	$ 212,689	$ 27,401	$ 240,090	61.3%
Public, held-to-maturity, at amortized cost	2,500	0	2,500	0.7
Private, available-for-sale, at fair value	30,650	15,811	46,461	11.9
Private, held-to-maturity, at amortized cost	812	0	812	0.2
Trading account assets supporting insurance liabilities, at fair value	20,827	0	20,827	5.3
Other trading account assets, at fair value	1,341	342	1,683	0.4
Equity securities, available-for-sale, at fair value	6,019	3,884	9,903	2.5
Commercial mortgage and other loans, at book value	31,133	9,673	40,806	10.4
Policy loans, at outstanding balance	6,753	5,013	11,766	3.0
Other long-term investments(1)	7,172	2,024	9,196	2.4
Short-term investments	5,445	1,866	7,311	1.9
Total general account investments	325,341	66,014	391,355	100.0%
Invested assets of other entities and operations(2)	6,818	0	6,818	
Total investments	$ 332,159	$ 66,014	$ 398,173	

(1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership and other miscellaneous investments. For additional information regarding these investments, see Other Long-Term Investments below.

(2) Includes invested assets of our asset management and derivative operations. Excludes assets of our asset management operations that are managed for third parties and those assets classified as Separate account assets on our balance sheet. For additional information regarding these investments, see Invested Assets of Other Entities and Operations below.

The increase in general account investments attributable to the Financial Services Businesses in the first three months of 2014 was primarily due to a net increase in fair value driven by a decrease in U.S. risk-free rates and tightening of credit spreads as well as portfolio growth driven by the reinvestment of net investment income and net operating inflows. The general account investments attributable to the Closed Block Business also increased in the first three months of 2014, primarily due to a net increase in fair value driven by a decrease in U.S. risk-free rates and tightening of credit spreads. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

We have substantial insurance operations in Japan, with 43% of our Financial Services Businesses general account investments relating to our Japanese insurance operations as of both March 31, 2014 and December 31, 2013.

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The following table sets forth the composition related to the investments of our Japanese insurance operations general account as of the dates indicated.

	March 31, 2014	December 31, 2013
	(in millions)	
Fixed maturities:		
Public, available-for-sale, at fair value	$ 115,484	$ 112,501
Public, held-to-maturity, at amortized cost	2,481	2,500
Private, available-for-sale, at fair value	7,200	6,762
Private, held-to-maturity, at amortized cost	794	812
Trading account assets supporting insurance liabilities, at fair value	1,905	1,925
Other trading account assets, at fair value	812	884
Equity securities, available-for-sale, at fair value	2,613	2,557
Commercial mortgage and other loans, at book value	6,861	6,581
Policy loans, at outstanding balance	2,361	2,280
Other long-term investments(1)	1,657	1,576
Short-term investments	684	541
Total Japanese general account investments	$ 142,852	$ 138,919

(1) Other long-term investments consist of real estate and non-real estate-related investments in joint ventures and partnerships, investment real estate held through direct ownership, derivatives, and other miscellaneous investments.

The increase in general account investments related to our Japanese insurance operations in the first three months of 2014 was primarily attributable to the yen strengthening against the U.S. dollar and portfolio growth as a result of business inflows and the reinvestment of net investment income, as well as a net increase in fair value driven by declining interest rates on yen-denominated investments.

The functional currency of our Japanese insurance subsidiaries is the yen and, although the majority of the Japanese general account is invested in yen-denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. and Australian dollars.

As of March 31, 2014, our Japanese insurance operations had $48.2 billion, at fair value, of investments denominated in U.S. dollars, including $3.7 billion that were hedged to yen through third party derivative contracts and $30.5 billion that support liabilities denominated in U.S. dollars. As of December 31, 2013, our Japanese insurance operations had $42.6 billion, at fair value, of investments denominated in U.S. dollars, including $3.5 billion that were hedged to yen through third party derivative contracts and $29.9 billion that support liabilities denominated in U.S. dollars. The $5.6 billion increase in the fair value of U.S. dollar-denominated investments from December 31, 2013, is primarily attributable to a decrease in interest rates and portfolio growth as a result of business inflows.

Our Japanese insurance operations had $9.2 billion and $8.5 billion, at fair value, of investments denominated in Australian dollars that support liabilities denominated in Australian dollars as of March 31, 2014 and December 31, 2013, respectively. The $0.7 billion increase in the fair value of Australian dollar-denominated investments from December 31, 2013, is primarily attributable to portfolio growth as a result of net business inflows and a decrease in interest rates, partially offset by the yen strengthening against the Australian dollar.

For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations, see Results of Operations for Financial Services Businesses by Segment International Insurance Division, above.

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Investment Results

The following tables set forth the income yield and investment income for each major investment category of our general account for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest related items, such as settlements of duration management swaps which are included in realized gains and losses.

	Three Months Ended March 31, 2014					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	3.79%	$ 2,157	5.10%	$ 482	3.98%	$ 2,639
Trading account assets supporting insurance liabilities	3.83	199	0.00	0	3.83	199
Equity securities	5.46	63	3.34	21	4.72	84
Commercial mortgage and other loans	4.61	363	5.44	132	4.80	495
Policy loans	4.85	82	5.83	72	5.26	154
Short-term investments and cash equivalents	0.25	6	0.88	1	0.29	7
Other investments	11.72	250	17.73	104	13.02	354
Gross investment income before investment expenses	4.03	3,120	5.60	812	4.28	3,932
Investment expenses	(0.12)	(72)	(0.26)	(37)	(0.15)	(109)
Investment income after investment expenses	3.91%	3,048	5.34%	775	4.13%	3,823
Investment results of other entities and operations(2)		15		0		15
Total investment income		$ 3,063		$ 775		$ 3,838

	Three Months Ended March 31, 2013					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	3.67%	$ 2,147	5.24%	$ 510	3.89%	$ 2,657
Trading account assets supporting insurance liabilities	3.89	200	0.00	0	3.89	200
Equity securities	5.70	59	3.09	19	4.72	78
Commercial mortgage and other loans	5.05	341	5.77	138	5.24	479
Policy loans	4.60	76	5.67	72	5.06	148
Short-term investments and cash equivalents	0.19	8	1.29	2	0.22	10
Other investments	4.39	88	10.35	61	5.75	149
Gross investment income before investment expenses	3.70	2,919	5.44	802	3.97	3,721
Investment expenses	(0.12)	(80)	(0.26)	(39)	(0.14)	(119)
Investment income after investment expenses	3.58%	2,839	5.18%	763	3.83%	3,602
Investment results of other entities and operations(2)		36		0		36
Total investment income		$ 2,875		$ 763		$ 3,638

(1) Yields are annualized, for interim periods, and are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on

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cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period s yields are presented on a basis consistent with the current period presentation.

(2) Includes investment income of our asset management operations and derivative operations, as described below under Invested Assets of Other Entities and Operations.

See below for a discussion of the change in the Financial Services Businesses yields. The increase in net investment income yield attributable to the Closed Block Business for the three months ended March 31, 2014, compared to the three months ended March 31, 2013, was primarily due to higher income from non-coupon investments, partially offset by lower fixed income reinvestment rates.

The following table sets forth the income yield and investment income for each major investment category of the Financial Services Businesses general account, excluding the Japanese insurance operations portion of the general account which is presented separately below, for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest related items, such as settlements of duration management swaps which are included in realized gains and losses.

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Yield(1)	Amount	Yield(1)	Amount
		($ in millions)		
Fixed maturities	4.61%	$ 1,354	4.61%	$ 1,314
Trading account assets supporting insurance liabilities	3.92	185	4.00	188
Equity securities	6.40	45	6.97	40
Commercial mortgage and other loans	4.77	296	5.29	276
Policy loans	5.44	61	5.36	54
Short-term investments and cash equivalents	0.24	5	0.20	7
Other investments	13.30	202	3.45	41
Gross investment income before investment expenses	4.69	2,148	4.32	1,920
Investment expenses	(0.12)	(33)	(0.12)	(38)
Investment income after investment expenses	4.57%	2,115	4.20%	1,882
Investment results of other entities and operations(2)		15		36
Total investment income		$ 2,130		$ 1,918

(1) Yields are annualized, for interim periods, and are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period s yields are presented on a basis consistent with the current period presentation.

(2) Includes investment income of our asset management operations and derivative operations.

The increase in net investment income yield attributable to the Financial Services Businesses general account, excluding Japanese operations portfolio, for the three months ended March 31, 2014, compared to the three months ended March 31, 2013, was primarily the result of higher income from non-coupon investments and the benefits from reinvestments into higher yielding securities.

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The following table sets forth the income yield and investment income for each major investment category of our Japanese insurance operations general account for the periods indicated. The yields are based on net investment income as reported under U.S. GAAP and as such do not include certain interest related items, such as settlements of duration management swaps which are included in realized gains and losses.

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)			
Fixed maturities	2.93%	$ 803	2.78%	$ 833
Trading account assets supporting insurance liabilities	2.87	14	2.69	12
Equity securities	3.97	18	4.11	19
Commercial mortgage and other loans	3.99	67	4.23	65
Policy loans	3.71	21	3.38	22
Short-term investments and cash equivalents	0.28	1	0.15	1
Other investments	7.83	48	5.75	47
Gross investment income before investment expenses	3.08	972	2.90	999
Investment expenses	(0.12)	(39)	(0.11)	(42)
Total investment income	2.96%	$ 933	2.79%	$ 957

(1) Yields are annualized, for interim periods, and are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period s yields are presented on a basis consistent with the current period presentation.

The increase in net investment income yield on the Japanese insurance portfolio for the three months ended March 31, 2014, compared to the three months ended March 31, 2013, was primarily attributable to more favorable results from non-coupon investments and asset growth supporting both U.S. and Australian dollar-denominated products, as well as higher fixed maturity reinvestment rates in the U.S.

Both the U.S. dollar-denominated and Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts provide a yield that is substantially higher than the yield on comparable yen-denominated fixed maturities. The average amortized cost of U.S. dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts for the three months ended March 31, 2014 and 2013, was approximately $32.6 billion and $31.4 billion, respectively. The majority of U.S. dollar-denominated fixed maturities support liabilities that are denominated in U.S. dollars. The average amortized cost of Australian dollar-denominated fixed maturities that are not hedged to yen through third party derivative contracts for the three months ended March 31, 2014 and 2013, was approximately $8.5 billion and $7.8 billion, respectively. The Australian dollar-denominated fixed maturities support liabilities that are denominated in Australian dollars.

For additional information regarding U.S. and Australian dollar investments held in our Japanese insurance operations portfolio, see Results of Operations for Financial Services Businesses by Segment International Insurance Division.

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Fixed Maturity Securities

Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Financial Services Businesses as of the dates indicated and the associated gross unrealized gains and losses.

Fixed Maturity Securities Financial Services Businesses

Industry(1)	March 31, 2014 Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	December 31, 2013 Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
	(in millions)							
Corporate securities:								
Finance	$ 21,325	$ 1,446	$ 194	$ 22,577	$ 20,764	$ 1,338	$ 326	$ 21,776
Consumer non-cyclical	22,023	1,989	396	23,616	21,965	1,888	653	23,200
Utility	18,984	1,547	399	20,132	18,335	1,299	659	18,975
Capital goods	10,172	981	166	10,987	10,025	901	266	10,660
Consumer cyclical	10,261	844	158	10,947	10,202	788	257	10,733
Foreign agencies	5,166	758	56	5,868	4,810	792	74	5,528
Energy	8,838	736	169	9,405	8,705	650	284	9,071
Communications	5,956	674	106	6,524	6,160	590	208	6,542
Basic industry	6,254	432	120	6,566	6,186	396	205	6,377
Transportation	5,839	545	61	6,323	5,712	477	116	6,073
Technology	3,553	300	67	3,786	3,589	286	103	3,772
Industrial other	2,479	221	28	2,672	2,440	205	52	2,593
Total corporate securities	120,850	10,473	1,920	129,403	118,893	9,610	3,203	125,300
Foreign government(3)	77,604	8,063	232	85,435	76,171	7,522	257	83,436
Residential mortgage-backed	5,761	358	19	6,100	5,872	356	34	6,194
Asset-backed securities(4)	7,589	232	125	7,696	7,591	218	173	7,636
Commercial mortgage-backed	10,139	342	70	10,411	9,772	360	104	10,028
U.S. Government	9,672	1,840	22	11,490	9,885	1,459	71	11,273
State & Municipal(5)	3,466	341	58	3,749	2,932	223	130	3,025
Total(6)	$ 235,081	$ 21,649	$ 2,446	$ 254,284	$ 231,116	$ 19,748	$ 3,972	$ 246,892

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes $284 million of gross unrealized gains and $22 million of gross unrealized losses as of March 31, 2014, compared to $265 million of gross unrealized gains and $24 million of gross unrealized losses as of December 31, 2013, on securities classified as held-to-maturity.
(3) As of both March 31, 2014 and December 31, 2013, based on amortized cost, 80% represent Japanese government bonds held by our Japanese insurance operations, with no other individual country representing more than 9% of the balance.
(4) Includes securities collateralized by sub-prime mortgages. See Asset-Backed Securities below.
(5) Includes securities related to the Build America Bonds program.
(6) Excluded from the table above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see Invested Assets of Other Entities and Operations below. Also excluded from the table above are fixed

maturity securities classified as trading. See Trading Account Assets Supporting Insurance Liabilities and Other Trading Account Assets for additional information.

The increase in net unrealized gains from December 31, 2013 to March 31, 2014, was primarily due to a net decrease in U.S. interest rates.

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The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Closed Block Business as of the dates indicated and the associated gross unrealized gains and losses.

Fixed Maturity Securities Closed Block Business

	March 31, 2014				December 31, 2013			
Industry(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Corporate securities:								
Utility	$ 4,573	$ 604	$ 23	$ 5,154	$ 4,584	$ 499	$ 48	$ 5,035
Consumer non-cyclical	4,883	548	24	5,407	4,693	480	47	5,126
Finance	4,118	350	4	4,464	4,001	294	15	4,280
Consumer cyclical	3,161	361	7	3,515	3,272	317	18	3,571
Capital goods	2,537	286	6	2,817	2,479	252	14	2,717
Energy	1,855	214	11	2,058	1,855	178	15	2,018
Communications	1,330	183	4	1,509	1,413	144	12	1,545
Basic industry	1,369	116	9	1,476	1,303	90	23	1,370
Transportation	1,313	158	5	1,466	1,313	120	9	1,424
Industrial other	927	72	5	994	954	61	13	1,002
Technology	677	62	5	734	665	53	8	710
Foreign agencies	402	42	3	441	460	38	6	492
Total corporate securities	27,145	2,996	106	30,035	26,992	2,526	228	29,290
Asset-backed securities(2)	3,658	41	97	3,602	3,747	34	141	3,640
Commercial mortgage-backed	4,055	66	36	4,085	3,960	60	59	3,961
U.S. Government	3,769	482	2	4,249	3,824	279	26	4,077
Residential mortgage-backed	1,049	56	4	1,101	1,080	55	6	1,129
Foreign government(3)	368	59	6	421	361	55	8	408
State & Municipal	688	85	4	769	664	51	7	708
Total(4)	$ 40,732	$ 3,785	$ 255	$ 44,262	$ 40,628	$ 3,060	$ 475	$ 43,213

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes securities collateralized by sub-prime mortgages. See Asset-Backed Securities below.
(3) As of both March 31, 2014 and December 31, 2013, based on amortized cost, no individual foreign country represented more than 11%.
(4) The table above excludes fixed maturity securities classified as trading. See Other Trading Account Assets for additional information.

The increase in net unrealized gains from December 31, 2013 to March 31, 2014, was primarily due to a net decrease in U.S. interest rates.

Asset-Backed Securities

Included within asset-backed securities attributable to both the Financial Services Businesses and the Closed Block Business are securities collateralized by sub-prime mortgages. While there is no market standard definition, we define sub-prime mortgages as residential mortgages that are originated to weaker quality obligors as indicated by weaker credit scores, as well as mortgages with higher loan-to-value ratios or limited documentation.

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The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Financial Services Businesses as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

Asset-Backed Securities at Amortized Cost Financial Services Businesses

	March 31, 2014 Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB (in millions)	BB and below	Total Amortized Cost	Total December 31, 2013
Collateralized by sub-prime mortgages:							
2014 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	0	0	0	340	340	353
2006	1	0	19	74	531	625	656
2005	0	2	25	28	207	262	268
2004 & Prior	0	3	28	26	534	591	606
Total collateralized by sub-prime mortgages	1	5	72	128	1,612	1,818	1,883
Other asset-backed securities:							
Collateralized loan obligations	2,526	307	0	0	0	2,833	2,654
Collateralized by non-sub-prime mortgages	913	46	5	14	2	980	1,008
Collateralized by credit cards	444	0	8	5	0	457	497
Collateralized by auto loans	547	0	0	0	0	547	568
Other asset-backed securities(1)	151	569	93	23	118	954	981
Total asset-backed securities(2)	$ 4,582	$ 927	$ 178	$ 170	$ 1,732	$ 7,589	$ 7,591

(1) Includes asset-backed securities collateralized by education loans, aircraft, equipment leases, franchises, and timeshares. Approximately 96% of the $398 million of education loans included above carry a Department of Education guaranty as of March 31, 2014.
(2) Excluded from the table above are asset-backed securities held outside the general account in other entities and operations. Also excluded from the table above are asset-backed securities classified as trading.

Asset-Backed Securities at Fair Value Financial Services Businesses

	March 31, 2014 Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB (in millions)	BB and below	Total Fair Value	Total December 31, 2013
Collateralized by sub-prime mortgages:							
2014 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	0	0	0	336	336	334
2006	1	0	19	68	559	647	658
2005	0	2	25	29	204	260	259
2004 & Prior	0	3	27	25	510	565	577

Total collateralized by sub-prime mortgages	1	5	71	122	1,609	1,808	1,828
Other asset-backed securities:							
Collateralized loan obligations	2,519	310	0	0	5	2,834	2,656
Collateralized by non-sub-prime mortgages	968	47	5	13	2	1,035	1,064
Collateralized by credit cards	456	0	8	5	0	469	510
Collateralized by auto loans	551	0	0	0	1	552	571
Other asset-backed securities(1)	152	585	100	26	135	998	1,007
Total asset-backed securities(2)	$ 4,647	$ 947	$ 184	$ 166	$ 1,752	$ 7,696	$ 7,636

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(1) Includes asset-backed securities collateralized by education loans, aircraft, equipment leases, franchises, and timeshares. Approximately 96% of the $402 million of education loans included above carry a Department of Education guaranty as of March 31, 2014.
(2) Excluded from the table above are asset-backed securities held outside the general account in other entities and operations. Also excluded from the table above are asset-backed securities classified as trading.

The tables above provide ratings as assigned by nationally recognized rating agencies as of March 31, 2014, including Standard & Poor s, Moody s and Fitch. In making our investment decisions, rather than relying solely on the rating agencies evaluations, we assign internal ratings to our asset-backed securities based upon our dedicated asset-backed securities unit s independent evaluation of the underlying collateral and securitization structure, including any guarantees from monoline bond insurers.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses decreased from $1.883 billion as of December 31, 2013, to $1.818 billion as of March 31, 2014, primarily reflecting sales, principal paydowns and other-than-temporary impairments recognized. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses were $111 million as of March 31, 2014, and $144 million as of December 31, 2013. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages see Realized Investment Gains and Losses above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

The weighted average estimated subordination percentage of our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses, excluding those supported by guarantees from monoline bond insurers, was 28% as of March 31, 2014. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. As of March 31, 2014, based on amortized cost, approximately 58% of the asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses have estimated credit subordination percentages of 20% or more, and 41% have estimated credit subordination percentages of 30% or more.

In addition to subordination, certain securities, referred to as front pay or second pay securities, benefit from the prioritization of principal cash flows within the senior tranches of the structure. In most instances, these shorter duration senior securities have priority to principal cash flows over other securities in the structure, including longer duration senior securities. Included within the $1.818 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses as of March 31, 2014, were $281 million of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

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The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Closed Block Business as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

Asset-Backed Securities at Amortized Cost Closed Block Business

Vintage	March 31, 2014 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2013
				(in millions)			
Collateralized by sub-prime mortgages:							
2014 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	3	0	20	150	173	239
2006	1	83	0	5	376	465	573
2005	6	13	60	14	85	178	186
2004 & Prior	0	1	12	14	395	422	433
Total collateralized by sub-prime mortgages	7	100	72	53	1,006	1,238	1,431
Other asset-backed securities:							
Collateralized by auto loans	778	0	0	0	0	778	687
Collateralized loan obligations	639	99	20	0	0	758	660
Collateralized by credit cards	257	0	0	18	0	275	336
Collateralized by education loans(1)	31	391	0	0	0	422	429
Other asset-backed securities(2)	79	47	50	1	10	187	204
Total asset-backed securities(3)	$ 1,791	$ 637	$ 142	$ 72	$ 1,016	$ 3,658	$ 3,747

(1) Approximately 96% of the $422 million of education loans included above carry a Department of Education guaranty as of March 31, 2014.
(2) Includes asset-backed securities collateralized by franchises, equipment leases, aircraft, manufacturing and timeshares.
(3) Excluded from the table above are asset-backed securities classified as trading.

Asset-Backed Securities at Fair Value Closed Block Business

Vintage	March 31, 2014 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2013
				(in millions)			
Collateralized by sub-prime mortgages:							
2014 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	3	0	19	147	169	227
2006	1	81	0	5	338	425	506
2005	6	13	58	14	77	168	174
2004 & Prior	0	1	12	14	371	398	406
Total collateralized by sub-prime mortgages	7	98	70	52	933	1,160	1,313

Other asset-backed securities:							
Collateralized by auto loans	779	0	0	0	0	779	689
Collateralized loan obligations	638	99	20	0	5	762	665
Collateralized by credit cards	258	0	0	18	0	276	337
Collateralized by education loans(1)	31	398	0	0	0	429	425
Other asset-backed securities(2)	80	49	53	0	14	196	211
Total asset-backed securities(3)	$ 1,793	$ 644	$ 143	$ 70	$ 952	$ 3,602	$ 3,640

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(1) Approximately 96% of the $429 million of education loans included above carry a Department of Education guaranty as of March 31, 2014.
(2) Includes asset-backed securities collateralized by franchises, equipment leases, aircraft, manufacturing and timeshares.
(3) Excluded from the table above are asset-backed securities classified as trading.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business decreased from $1.431 billion as of December 31, 2013, to $1.238 billion as of March 31, 2014, primarily reflecting sales, principal paydowns and other-than-temporary impairments recognized. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business were $93 million as of March 31, 2014, and $127 million as of December 31, 2013. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages see Realized Investment Gains and Losses above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

The weighted average estimated subordination percentage of asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business, excluding those supported by guarantees from monoline bond insurers, was 37% as of March 31, 2014. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. As of March 31, 2014, based on amortized cost, approximately 79% of the asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business have estimated credit subordination percentages of 20% or more, and 54% have estimated credit subordination percentages of 30% or more.

In addition to subordination, certain securities, referred to as front pay or second pay securities, benefit from the prioritization of principal cash flows within the senior tranches of the structure. In most instances, these shorter duration senior securities have priority to principal cash flows over other securities in the structure, including longer duration senior securities. Included within the $1.238 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business as of March 31, 2014, were $95 million of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

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Residential Mortgage-Backed Securities

The following tables set forth the amortized cost of our residential mortgage-backed securities attributable to the Financial Services Businesses and Closed Block Business as of the dates indicated.

Residential Mortgage-Backed Securities at Amortized Cost

	March 31, 2014			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
By security type:				
Agency pass-through securities(1)	$ 5,669	98.4%	$ 943	89.9%
Collateralized mortgage obligations	92	1.6	106	10.1
Total residential mortgage-backed securities	$ 5,761	100.0%	$ 1,049	100.0%
Portion rated AA or higher(2)	$ 5,677	98.5%	$ 943	89.9%

	December 31, 2013			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
By security type:				
Agency pass-through securities(1)	$ 5,770	98.3%	$ 966	89.4%
Collateralized mortgage obligations	102	1.7	114	10.6
Total residential mortgage-backed securities	$ 5,872	100.0%	$ 1,080	100.0%
Portion rated AA or higher(2)	$ 5,779	98.4%	$ 966	89.4%

(1) As of March 31, 2014, of these securities, for the Financial Services Businesses, $4.299 billion are supported by U.S. government and $1.370 billion are supported by foreign governments. As of December 31, 2013, of these securities, for the Financial Services Businesses, $4.388 billion were supported by the U.S. government and $1.382 billion were supported by foreign governments. For the Closed Block Business, all of the securities are supported by the U.S. government as of both March 31, 2014 and December 31, 2013.
(2) Based on lowest external rating agency rating.

Commercial Mortgage-Backed Securities

The commercial real estate market was severely impacted by the financial crisis and the subsequent recession; however, market fundamentals have bottomed and have shown signs of improvement since late 2010. Commercial real estate vacancy rates have declined from their peak, rent growth has turned positive and prices of commercial real estate have rebounded. Additionally, the elevated delinquency rate on mortgages in the commercial mortgage-backed securities market has decreased and refinancing activity is more robust, reflecting the improvement in these fundamentals. We believe that the loans included in new issues reflect better underwriting and lower levels of leverage compared to 2007.

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The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Financial Services Businesses as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost Financial Services Businesses

	March 31, 2014 Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB (in millions)	BB and below	Total Amortized Cost	Total December 31, 2013
2014	$ 954	$ 0	$ 0	$ 0	$ 0	$ 954	$ 0
2013	2,444	125	0	9	0	2,578	2,579
2012 2009	244	284	0	0	0	528	529
2008 2007	617	44	18	5	0	684	952
2006	2,854	103	7	4	0	2,968	3,132
2005	1,950	65	8	4	0	2,027	2,116
2004 & Prior	310	67	22	0	1	400	464
Total commercial mortgage-backed securities(2)(3)(4)	$ 9,373	$ 688	$ 55	$ 22	$ 1	$ 10,139	$ 9,772

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of March 31, 2014, including Standard & Poor s, Moody s, Fitch and Realpoint.
(2) Excluded from the table above are commercial mortgage-backed securities held outside the general account in other entities and operations. Also excluded from the table above are commercial mortgage-backed securities classified as trading.
(3) Included in the table above, as of March 31, 2014, are downgraded super senior securities with amortized cost of $154 million in AA and $45 million in A.
(4) Included in the table above, as of March 31, 2014, are agency commercial mortgage-backed securities with amortized cost of $443 million, all rated AA.

Commercial Mortgage-Backed Securities at Fair Value Financial Services Businesses

	March 31, 2014 Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB (in millions)	BB and below	Total Fair Value	Total December 31, 2013
2014	$ 954	$ 0	$ 0	$ 0	$ 0	$ 954	$ 0
2013	2,423	123	0	8	0	2,554	2,501
2012 2009	235	301	0	0	0	536	534
2008 2007	629	47	17	6	0	699	976
2006	2,985	110	7	4	0	3,106	3,283
2005	2,012	74	10	5	0	2,101	2,203
2004 & Prior	347	85	28	0	1	461	531
Total commercial mortgage-backed securities(2)(3)	$ 9,585	$ 740	$ 62	$ 23	$ 1	$ 10,411	$ 10,028

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(1) The table above provides ratings as assigned by nationally recognized rating agencies as of March 31, 2014, including Standard & Poor s, Moody s, Fitch and Realpoint.
(2) Excluded from the table above are commercial mortgage-backed securities held outside the general account in other entities and operations. Also excluded from the table above are commercial mortgage-backed securities classified as trading.
(3) Included in the table above, as of March 31, 2014, are agency commercial mortgage-backed securities with fair value of $461 million, all rated AA.

Included in the tables above are commercial mortgage-backed securities collateralized by U.S. properties, all related to commercial mortgage-backed securities held by our Japanese insurance operations, with an amortized cost of $319 million in AAA, $91 million in AA, $25 million in A and $8 million in BBB as of March 31, 2014, and $380 million in AAA, $93 million in AA, $26 million in A and $8 million in BBB as of December 31, 2013. Commercial mortgage-backed securities collateralized by non-U.S. properties are immaterial for both years.

The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Closed Block Business as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost Closed Block Business

	March 31, 2014 Lowest Rating Agency Rating(1)						
	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2013
	(in millions)						
Vintage							
2014	$ 397	$ 65	$ 0	$ 0	$ 0	$ 462	$ 0
2013	943	317	0	9	0	1,269	1,333
2012 2009	334	139	0	0	0	473	452
2008 2007	247	42	0	1	5	295	371
2006	898	23	0	0	0	921	1,038
2005	567	26	0	0	0	593	710
2004 & Prior	35	4	0	3	0	42	56
Total commercial mortgage-backed securities(2)(3)	$ 3,421	$ 616	$ 0	$ 13	$ 5	$ 4,055	$ 3,960

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of March 31, 2014, including Standard & Poor s, Moody s, Fitch and Realpoint.
(2) Included in the table above, as of March 31, 2014, are downgraded super senior securities with amortized cost of $49 million in AA.
(3) Included in the table above, as of March 31, 2014, are agency commercial mortgage-backed securities with amortized cost of $20 million in AAA and $564 million in AA.

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Commercial Mortgage-Backed Securities at Fair Value Closed Block Business

	March 31, 2014						
	Lowest Rating Agency Rating(1)					Total Fair Value	Total December 31, 2013
	AAA	AA	A	BBB	BB and below		
	(in millions)						
Vintage							
2014	$ 398	$ 67	$ 0	$ 0	$ 0	$ 465	$ 0
2013	930	319	0	8	0	1,257	1,294
2012 2009	328	140	0	0	0	468	443
2008 2007	250	42	0	1	13	306	381
2006	918	24	0	1	0	943	1,062
2005	577	27	0	0	0	604	725
2004 & Prior	35	4	0	3	0	42	56
Total commercial mortgage-backed securities(2)	$ 3,436	$ 623	$ 0	$ 13	$ 13	$ 4,085	$ 3,961

(1) The table above provides ratings as assigned by nationally recognized rating agencies as of March 31, 2014, including Standard & Poor s, Moody s, Fitch and Realpoint.

(2) Included in the table above, as of March 31, 2014, are agency commercial mortgage-backed securities with fair value of $19 million in AAA and $568 million in AA.

Fixed Maturity Securities Credit Quality

The Securities Valuation Office (SVO) of the NAIC, evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called NAIC Designations. In general, NAIC Designations of 1 highest quality, or 2 high quality, include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody s or BBB- or higher by Standard & Poor s. NAIC Designations of 3 through 6 generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody s and BB+ or lower by Standard & Poor s. The NAIC Designations for commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages, are based on security level expected losses as modeled by an independent third-party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized.

As a result of time lags between the funding of investments, the finalization of legal documents, and the completion of the SVO filing process, the fixed maturity portfolio generally includes securities that have not yet been rated by the SVO as of each balance sheet date. Pending receipt of SVO ratings, the categorization of these securities by NAIC Designation is based on the expected ratings indicated by internal analysis.

Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency, an agency of the Japanese government. The Financial Services Agency has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the Financial Services Agency s credit quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody s, Standard & Poor s, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

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The following table sets forth our fixed maturity portfolio by NAIC Designation attributable to the Financial Services Businesses as of the dates indicated.

Fixed Maturity Securities Financial Services Businesses

(1)(2)	March 31, 2014				December 31, 2013			
NAIC Designation	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)(4)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)(4)	Fair Value
	(in millions)							
1	$ 183,757	$ 17,067	$ 1,750	$ 199,074	$ 179,543	$ 15,520	$ 2,811	$ 192,252
2	42,396	3,884	550	45,730	42,659	3,563	938	45,284
Subtotal High or Highest Quality Securities(5)	226,153	20,951	2,300	244,804	222,202	19,083	3,749	237,536
3	6,355	420	98	6,677	6,321	412	152	6,581
4	1,982	190	34	2,138	2,058	191	51	2,198
5	384	50	11	423	322	31	16	337
6	207	38	3	242	213	31	4	240
Subtotal Other Securities(6)(7)	8,928	698	146	9,480	8,914	665	223	9,356
Total Fixed Maturities	$ 235,081	$ 21,649	$ 2,446	$ 254,284	$ 231,116	$ 19,748	$ 3,972	$ 246,892

(1) Reflects equivalent ratings for investments of the international insurance operations.
(2) Includes, as of March 31, 2014 and December 31, 2013, 378 securities with amortized cost of $1,309 million (fair value, $1,356 million) and 306 securities with amortized cost of $806 million (fair value, $831 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.
(3) Includes $284 million of gross unrealized gains and $22 million gross unrealized losses as of March 31, 2014, compared to $265 million of gross unrealized gains and $24 million of gross unrealized losses as of December 31, 2013, on securities classified as held-to-maturity.
(4) As of March 31, 2014, includes gross unrealized losses of $125 million on public fixed maturities and $21 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2013, includes gross unrealized losses of $181 million on public fixed maturities and $42 million on private fixed maturities considered to be other than high or highest quality.
(5) On amortized cost basis, as of March 31, 2014, includes $199,003 million of public fixed maturities and $27,150 million of private fixed maturities and, as of December 31, 2013, includes $196,058 million of public fixed maturities and $26,144 million of private fixed maturities.
(6) On an amortized cost basis, as of March 31, 2014, includes $5,713 million of public fixed maturities and $3,215 million of private fixed maturities and, as of December 31, 2013, includes $5,710 million of public fixed maturities and $3,204 million of private fixed maturities.
(7) On an amortized cost basis, as of March 31, 2014, securities considered below investment grade based on lowest of external rating agency ratings, total $10.6 billion, or 4% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.

The following table sets forth our fixed maturity portfolio by NAIC Designation attributable to the Closed Block Business as of the dates indicated.

Fixed Maturity Securities Closed Block Business

(1) NAIC Designation	March 31, 2014	December 31, 2013

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(2)	Fair Value
				(in millions)				
1	$ 23,561	$ 1,987	$ 157	$ 25,391	$ 23,521	$ 1,543	$ 307	$ 24,757
2	14,090	1,609	60	15,639	14,166	1,359	118	15,407
Subtotal High or Highest Quality Securities(3)	37,651	3,596	217	41,030	37,687	2,902	425	40,164
3	2,040	126	16	2,150	1,957	106	23	2,040
4	836	27	19	844	760	24	21	763
5	120	14	2	132	138	9	5	142
6	85	22	1	106	86	19	1	104
Subtotal Other Securities(4)(5)	3,081	189	38	3,232	2,941	158	50	3,049
Total Fixed Maturities	$ 40,732	$ 3,785	$ 255	$ 44,262	$ 40,628	$ 3,060	$ 475	$ 43,213

(1) Includes, as of March 31, 2014 and December 31, 2013, 70 securities with amortized cost of $923 million (fair value, $961 million) and 56 securities with amortized cost of $822 million (fair value, $837 million), respectively, that have been categorized based on expected NAIC Designations pending receipt of SVO ratings.
(2) As of March 31, 2014, includes gross unrealized losses of $27 million on public fixed maturities and $11 million on private fixed maturities considered to be other than high or highest quality and, as of December 31, 2013, includes gross unrealized losses of $35 million on public fixed maturities and $15 million on private fixed maturities considered to be other than high or highest quality.
(3) On an amortized cost basis, as of March 31, 2014, includes $24,727 million of public fixed maturities and $12,924 million of private fixed maturities and, as of December 31, 2013, includes $24,642 million of public fixed maturities and $13,045 million of private fixed maturities.
(4) On an amortized cost basis, as of March 31, 2014, includes $1,458 million public fixed maturities and $1,623 million of private fixed maturities and, as of December 31, 2013, includes $1,407 million of public fixed maturities and $1,534 million of private fixed maturities.
(5) On an amortized cost basis, as of March 31, 2014, securities considered below investment grade based on lowest of external rating agency ratings, totaled $4.2 billion, or 10% of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the rules described above.

Credit Derivative Exposure to Public Fixed Maturities

In addition to the credit exposure from public fixed maturities noted above, we sell credit derivatives to enhance the return on our investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments.

In a credit derivative, we may sell credit protection on an identified name or a broad based index, and in return receive a quarterly premium. This premium or credit spread generally corresponds to the difference between the yield on the reference names (or an index s underlying reference names) public fixed maturity cash instruments and swap rates at the time the agreement is executed.

The majority of the underlying reference names in single name and index credit derivatives where we have sold credit protection, as well as all the counterparties to these agreements, are investment grade credit quality and our credit derivatives have a remaining term to maturity of two years or less. Credit derivative contracts are recorded at fair value with changes in fair value, including the premium received, recorded in Realized investment gains (losses), net. The premium received for the credit derivatives we sell attributable to the Financial Services Businesses was $0 million and $2 million for the three months ended March 31, 2014 and 2013, respectively, and is included in adjusted operating income as an adjustment to Realized investment gains (losses), net.

The Financial Services Businesses had no outstanding sell protection credit derivatives as of March 31, 2014 and December 31, 2013. This excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance. See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information regarding this derivative.

As of both March 31, 2014 and December 31, 2013, the Closed Block Business had $5 million of outstanding notional amounts, reported at fair value as an asset of less than $1 million of exposure, where we have sold credit protection through credit derivatives.

In addition to selling credit protection, we have purchased credit protection using credit derivatives in order to hedge specific credit exposures in our investment portfolio. As of March 31, 2014 and December 31, 2013, the Financial Services Businesses had $1.088 billion and $1.124 billion of outstanding notional amounts, reported at fair value as a liability of $30 million and of $33 million, respectively. As of March 31, 2014 and December 31, 2013, the Closed Block Business had $248 million and $275 million of outstanding notional amounts, reported at fair value as a liability of $8 million and $9 million, respectively. The premium paid for the credit derivatives we purchase attributable to the Financial Services Businesses was $7 million and $8 million for the three months ended March 31, 2014 and 2013, respectively, and is included in adjusted operating income as an adjustment to "Realized investment gains (losses), net." See Note 14 to the Unaudited Interim Consolidated Financial Statements for additional information regarding credit derivatives and an overall description of our derivative activities.

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Other-Than-Temporary Impairments of Fixed Maturity Securities

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. Our public fixed maturity asset managers formally review all public fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or company or industry specific concerns.

For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish checks and balances for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our private fixed maturity asset managers formally review all private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or company or industry specific concerns. For additional information regarding our policies regarding other-than-temporary impairments for fixed maturity securities, see Note 2 to the Company s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

Other-than-temporary impairments of general account fixed maturity securities attributable to the Financial Services Businesses that were recognized in earnings were $10 million and $59 million for the three months ended March 31, 2014 and 2013, respectively. Included in the other-than-temporary impairments of general account fixed maturities attributable to the Financial Services Businesses for the three months ended March 31, 2014 and 2013, were $2 million and $8 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages.

Other-than-temporary impairments of fixed maturity securities attributable to the Closed Block Business that were recognized in earnings were $6 million and $11 million for the three months ended March 31, 2014 and 2013, respectively. Included in the other-than-temporary impairments of fixed maturities attributable to the Closed Block Business for the three months ended March 31, 2014 and 2013, were $2 million and $4 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages. For a further discussion of other-than-temporary impairments, see Realized Investment Gains and Losses above.

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Trading Account Assets Supporting Insurance Liabilities

Certain products included in the Retirement and International Insurance segments are experience-rated, meaning that we expect the investment results associated with these products will ultimately accrue to contractholders. The investments supporting these experience-rated products, excluding commercial mortgage and other loans, are primarily classified as trading and are reflected on the balance sheet as Trading account assets supporting insurance liabilities, at fair value. Realized and unrealized gains and losses for these investments are reported in Other income, and excluded from adjusted operating income. Investment income for these investments is reported in Net investment income, and is included in adjusted operating income. The following table sets forth the composition of this portfolio as of the dates indicated.

	March 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 805	$ 805	$ 697	$ 697
Fixed maturities:				
Corporate securities	11,987	12,612	12,109	12,616
Commercial mortgage-backed securities	2,447	2,480	2,417	2,441
Residential mortgage-backed securities	1,824	1,813	1,857	1,830
Asset-backed securities	1,089	1,103	1,096	1,107
Foreign government bonds	599	618	579	596
U.S. government authorities and agencies and obligations of U.S. states	296	342	303	341
Total fixed maturities	18,242	18,968	18,361	18,931
Equity securities	966	1,162	913	1,199
Total trading account assets supporting insurance liabilities	$ 20,013	$ 20,935	$ 19,971	$ 20,827

As a percentage of amortized cost, 77% of the portfolio was publicly-traded as of both March 31, 2014 and December 31, 2013. As of March 31, 2014 and December 31, 2013, 94% and 93% of the fixed maturity portfolio was considered high or highest quality based on NAIC or equivalent rating, respectively. As of March 31, 2014, $1.761 billion of the residential mortgage-backed securities were publicly-traded agency pass-through securities, which are supported by implicit or explicit government guarantees, of which 99% have credit ratings of A or higher. Collateralized mortgage obligations, including approximately $52 million secured by ALT-A mortgages, represented the remaining $63 million of residential mortgage-backed securities, of which 37% have credit ratings of A or better and 63% are BBB and below. For a discussion of changes in the fair value of our trading account assets supporting insurance liabilities, see Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments, above.

Other Trading Account Assets

Other trading account assets consist primarily of certain financial instruments that contain an embedded derivative where we elected to classify the entire instrument as a trading account asset rather than bifurcate. These instruments are carried at fair value, with realized and unrealized gains and losses reported in Other income, and excluded from adjusted operating income. Interest and dividend income from these investments is reported in Net investment income, and is included in adjusted operating income.

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The following table sets forth the composition of our other trading account assets as of the dates indicated.

	March 31, 2014				December 31, 2013			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)							
Short-term investments and cash equivalents	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Fixed maturities	647	701	151	173	576	612	166	185
Equity securities(1)	584	663	136	156	646	729	138	157
Total other trading account assets	$ 1,231	$ 1,364	$ 287	$ 329	$ 1,222	$ 1,341	$ 304	$ 342

(1) Included in equity securities are perpetual preferred stock securities that have characteristics of both debt and equity securities.

Included in the $647 million of fixed maturities attributable to the Financial Services Businesses as of March 31, 2014, on an amortized cost basis, are $163 million of asset-backed securities, 67% of which have credit ratings of A or above, 17% have BBB credit ratings, and the remaining 16% have BB and below credit ratings. Included in the $151 million of fixed maturities attributable to the Closed Block Business as of March 31, 2014, on an amortized cost basis, are $9 million of asset-backed securities, all of which have credit ratings of A or above.

Commercial Mortgage and Other Loans

Investment Mix

As of March 31, 2014 and December 31, 2013, we held approximately 11% and 10% of our general account investments in commercial mortgage and other loans. This percentage is net of a $215 million and $212 million allowance for losses as of March 31, 2014 and December 31, 2013, respectively.

The following table sets forth the composition of our commercial mortgage and other loans portfolio, before the allowance for losses, as of the dates indicated.

	March 31, 2014		December 31, 2013	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Commercial and agricultural mortgage loans	$ 30,381	$ 9,924	$ 29,164	$ 9,677
Uncollateralized loans	1,242	45	1,259	44
Residential property loans	526	0	544	0
Other collateralized loans	326	0	330	0

Total commercial mortgage and other loans(1)	$ 32,475	$ 9,969	$ 31,297	$ 9,721

(1) Excluded from the table above are commercial mortgage and other loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage and other loans held outside the general account, see Invested Assets of Other Entities and Operations below.

We originate commercial and agricultural mortgage loans using a dedicated investment staff and a network of independent companies through our various regional offices. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our experience in real estate and mortgage lending.

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Uncollateralized loans primarily represent reverse dual currency loans and corporate loans which do not meet the definition of a security under authoritative accounting guidance.

Residential property loans primarily include Japanese recourse loans. Upon default of these recourse loans we can make a claim against the personal assets of the property owner, in addition to the mortgaged property. These loans are also backed by third party guarantors.

Other collateralized loans attributable to the Financial Services Businesses include collateralized structured loans and consumer loans.

Composition of Commercial and Agricultural Mortgage Loans

The commercial real estate market was severely impacted by the financial crisis and the subsequent recession, though the flow of capital to commercial real estate has been strong since 2010. Portfolio lenders have been actively originating loans, focusing primarily on higher quality properties in major markets, resulting in an increase in the liquidity and availability of capital in the commercial mortgage loan market. For most property types, the market fundamentals have stabilized or are improving. In addition, the commercial banks are active and there has been increased loan origination activity by securitization lenders as commercial mortgage market spreads have generally tightened. These conditions have led to greater competition for portfolio lenders such as our general account, though underwriting remains conservative. Commercial real estate fundamentals continue to improve while employment growth has been modest and delinquency rates on our commercial mortgage loans remain low, from a historical standpoint and are stable. For additional information, see Realized Investment Gains and Losses above.

Our commercial and agricultural mortgage loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of our general account investments in commercial and agricultural mortgage loans by geographic region and property type as of the dates indicated.

	March 31, 2014				December 31, 2013			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial and agricultural mortgage loans by region:								
U.S. Regions:								
Pacific	$ 9,506	31.3%	$ 3,378	34.0%	$ 9,089	31.1%	$ 3,230	33.4%
South Atlantic	5,979	19.7	1,705	17.2	5,671	19.4	1,711	17.7
Middle Atlantic	4,141	13.6	2,067	20.8	3,855	13.3	1,924	19.9
East North Central	2,676	8.8	712	7.2	2,678	9.2	725	7.4
West South Central	2,906	9.6	815	8.2	2,828	9.7	823	8.6
Mountain	1,455	4.8	277	2.8	1,448	5.0	278	2.9
New England	1,037	3.4	369	3.7	1,026	3.5	412	4.2
West North Central	546	1.8	98	1.0	555	1.9	104	1.1
East South Central	295	0.9	137	1.4	296	1.0	137	1.4
Subtotal-U.S.	28,541	93.9	9,558	96.3	27,446	94.1	9,344	96.6
Asia	724	2.4	0	0.0	723	2.5	0	0.0
Other	1,116	3.7	366	3.7	995	3.4	333	3.4

Total commercial and agricultural mortgage loans	$ 30,381	100.0%	$ 9,924	100.0%	$ 29,164	100.0%	$ 9,677	100.0%

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	March 31, 2014				December 31, 2013			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial and agricultural mortgage loans by property type:								
Industrial	$ 5,957	19.6%	$ 1,580	15.9%	$ 5,778	19.8%	$ 1,612	16.7%
Retail	6,060	19.9	2,587	26.1	6,085	20.9	2,612	27.0
Office	5,629	18.5	2,528	25.5	5,389	18.5	2,359	24.4
Apartments/Multi-Family	6,808	22.4	1,450	14.6	6,031	20.7	1,287	13.3
Other	2,856	9.4	646	6.5	2,806	9.6	653	6.7
Agricultural properties	1,588	5.2	568	5.7	1,598	5.4	585	6.0
Hospitality	1,483	5.0	565	5.7	1,477	5.1	569	5.9
Total commercial and agricultural mortgage loans	$ 30,381	100.0%	$ 9,924	100.0%	$ 29,164	100.0%	$ 9,677	100.0%

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial and agricultural mortgage loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the loan amount is greater than the collateral value. A smaller loan-to-value ratio indicates a greater excess of collateral value over the loan amount. The debt service coverage ratio compares a property s net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan s current debt payments. A larger debt service coverage ratio indicates a greater excess of net operating income over the debt service payments.

As of March 31, 2014, our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses had a weighted average debt service coverage ratio of 2.21 times, and a weighted average loan-to-value ratio of 55%. As of March 31, 2014, approximately 96% of commercial and agricultural mortgage loans attributable to the Financial Services Businesses were fixed rate loans. As of March 31, 2014, our general account investments in commercial and agricultural mortgage loans attributable to the Closed Block Business had a weighted average debt service coverage ratio of 2.13 times, and a weighted average loan-to-value ratio of 52%. As of March 31, 2014, approximately 99% of commercial and agricultural mortgage loans attributable to the Closed Block Business were fixed rate loans. For those general account commercial and agricultural mortgage loans attributable to the Financial Services Businesses that were originated in 2014, the weighted average debt service coverage ratio was 2.35 times and the weighted average loan-to-value ratio was 62%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial and agricultural mortgage loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal quality rating is a key input in determining our allowance for loan losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial and agricultural mortgage loan portfolio attributable to the Financial Services Businesses included approximately $0.8 billion and $0.7 billion of such loans as of March 31, 2014 and December 31, 2013, respectively, and our commercial and agricultural mortgage loan portfolio attributable to the Closed Block Business included approximately $0.1 billion of such loans as of both March 31, 2014 and December 31, 2013.

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All else being equal, these loans are inherently more risky than those collateralized by properties that have already stabilized. As of March 31, 2014, there are no loan-specific reserves related to these loans attributable to the Financial Services Businesses or the Closed Block Business. In addition, these unstabilized loans are included in the calculation of our portfolio reserve as discussed below. For information regarding similar loans we hold as part of our commercial and agricultural mortgage operations, see Invested Assets of Other Entities and Operations below.

The following tables set forth the gross carrying value of our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses and the Closed Block Business as of the dates indicated by loan-to-value and debt service coverage ratios.

Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Financial Services Businesses

	March 31, 2014 Debt Service Coverage Ratio			
Loan-to-Value Ratio	Greater than 1.2x	1.0x to <1.2x	Less than 1.0x	Total Commercial and Agricultural Mortgage Loans
	(in millions)			
0%-59.99%	$ 15,375	$ 587	$ 256	$ 16,218
60%-69.99%	9,069	321	52	9,442
70%-79.99%	3,466	341	237	4,044
Greater than 80%	377	134	166	677
Total commercial and agricultural mortgage loans	$ 28,287	$ 1,383	$ 711	$ 30,381

Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Closed Block Business

	March 31, 2014 Debt Service Coverage Ratio			
Loan-to-Value Ratio	Greater than 1.2x	1.0x to <1.2x	Less than 1.0x	Total Commercial and Agricultural Mortgage Loans
	(in millions)			
0%-59.99%	$ 6,015	$ 198	$ 33	$ 6,246
60%-69.99%	2,595	121	27	2,743
70%-79.99%	641	141	28	810
Greater than 80%	81	17	27	125
Total commercial and agricultural mortgage loans	$ 9,332	$ 477	$ 115	$ 9,924

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The following table sets forth the breakdown of our commercial and agricultural mortgage loans by year of origination as of March 31, 2014.

	March 31, 2014			
	Financial Services Businesses		Closed Block Business	
Year of Origination	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)			
2014	$ 1,498	4.9%	$ 387	3.9%
2013	8,864	29.2	1,506	15.2
2012	4,678	15.4	1,816	18.3
2011	4,677	15.4	1,399	14.0
2010	2,785	9.2	1,016	10.2
2009	974	3.2	383	3.9
2008	1,553	5.1	542	5.5
2007 & prior	5,352	17.6	2,875	29.0
Total commercial and agricultural mortgage loans	$ 30,381	100.0%	$ 9,924	100.0%

Commercial Mortgage and Other Loan Quality

Ongoing review of the portfolio is performed and loans are placed on watch list status based on a predefined set of criteria, where they are assigned to one of the following categories. We place loans on early warning status in cases where, based on our analysis of the loan s collateral, the financial situation of the borrower or tenants or other market factors, we believe a loss of principal or interest could occur. We classify loans as closely monitored when we determine there is a collateral deficiency or other credit events that may lead to a potential loss of principal or interest. Loans not in good standing are those loans where we have concluded that there is a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy. In our domestic operations, our workout and special servicing professionals manage the loans on the watch list. As described below, in determining our allowance for losses we evaluate each loan on the watch list to determine if it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. In our international portfolios, we monitor delinquency in consumer loans on a pool basis and evaluate any servicing relationship and guarantees the same way we do for commercial mortgage loans.

We establish an allowance for losses to provide for the risk of credit losses inherent in the lending process. The allowance includes loan specific reserves for loans that are determined to be impaired as a result of our loan review process and a portfolio reserve for probable incurred but not specifically identified losses for loans which are not on the watch list. We define an impaired loan as a loan for which we estimate it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The loan specific portion of the loss allowance is based on our assessment as to ultimate collectability of loan principal and interest. Valuation allowances for an impaired loan are recorded based on the present value of expected future cash flows discounted at the loan s effective interest rate or based on the fair value of the collateral if the loan is collateral dependent. The portfolio reserve for incurred but not specifically identified losses considers the current credit composition of the portfolio based on the internal quality ratings mentioned above. The portfolio reserves are determined using past loan experience, including historical credit migration, loss probability, and loss severity factors by property type. These factors are reviewed and updated as appropriate. The valuation allowance for commercial mortgage and other loans can increase or decrease from period to period based on these factors.

Our general account investments in commercial mortgage and other loans attributable to the Financial Services Businesses, based upon the recorded investment gross of allowance for credit losses, was $32,475 million and $31,297 million as of March 31, 2014 and December 31, 2013, respectively. As a percentage of recorded investment gross of allowance, more than 99% of the assets were current for both periods.

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Our general account investments in commercial mortgage and other loans attributable to the Closed Block Business, based upon the recorded investment gross of allowance for credit losses, was $9,969 million and $9,721 million as of March 31, 2014 and December 31, 2013, respectively. As a percentage of recorded investment gross of allowance, more than 99% of the assets were current as of both March 31, 2014 and December 31, 2013, respectively.

The following table sets forth the change in valuation allowances for our commercial mortgage and other loan portfolio as of the dates indicated:

	March 31, 2014		December 31, 2013	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Allowance, beginning of year	$ 164	$ 48	$ 186	$ 58
Addition to/(release of) allowance for losses	3	0	10	(7)
Charge-offs, net of recoveries	0	0	(27)	(3)
Change in foreign exchange	0	0	(5)	0
Allowance, end of period	$ 167	$ 48	$ 164	$ 48
Loan specific reserve	14	3	11	3
Portfolio reserve	153	45	153	45

Equity Securities

Investment Mix

The equity securities attributable to the Financial Services Businesses consist principally of investments in common and preferred stock of publicly-traded companies, as well as mutual fund shares. The following table sets forth the composition of our equity securities portfolio attributable to the Financial Services Businesses and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities Financial Services Businesses

	March 31, 2014				December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Non-redeemable preferred stocks	$ 28	$ 10	$ 0	$ 38	$ 32	$ 4	$ 1	$ 35
Mutual fund common stocks(1)	2,388	576	0	2,964	2,245	562	8	2,799
Other common stocks	2,362	906	28	3,240	2,277	920	12	3,185
Total equity securities(2)	$ 4,778	$ 1,492	$ 28	$ 6,242	$ 4,554	$ 1,486	$ 21	$ 6,019

(1) Includes mutual fund shares representing our interest in the underlying assets of certain of our separate account investments supporting corporate-owned life insurance. These mutual funds invest primarily in high yield bonds.
(2) Amounts presented exclude hedge funds and other alternative investments which are reported in Other long-term investments.

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The following table sets forth the composition of our equity securities portfolio attributable to the Closed Block Business and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities Closed Block Business

	March 31, 2014				December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Non-redeemable preferred stocks	$ 0	$ 0	$ 0	$ 0	$ 1	$ 1	$ 0	$ 2
Mutual fund common stocks	8	6	0	14	8	6	0	14
Other common stocks	2,498	1,442	12	3,928	2,433	1,443	8	3,868
Total equity securities	$ 2,506	$ 1,448	$ 12	$ 3,942	$ 2,442	$ 1,450	$ 8	$ 3,884

Other-Than-Temporary Impairments of Equity Securities

For those equity securities classified as available-for-sale we record unrealized gains and losses to the extent cost is different from estimated fair value. All securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. For additional information regarding our policies regarding other-than-temporary impairments for equity securities, see Note 2 to the Company s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2013.

Impairments of equity securities attributable to the Financial Services Businesses were $8 million and $7 million for the three months ended March 31, 2014 and 2013, respectively. Impairments of equity securities attributable to the Closed Block Business were $2 million and $0 million for the three months ended March 31, 2014 and 2013, respectively. For a further discussion of impairments, see Realized Investment Gains and Losses above.

Other Long-Term Investments

The following table sets forth the composition of Other long-term investments, which primarily consists of investments in joint ventures and limited partnerships, other than operating joint ventures, as well as wholly-owned investment real estate and other investments, as of the dates indicated.

	March 31, 2014		December 31, 2013	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Joint ventures and limited partnerships:				
Real estate-related	$ 276	$ 491	$ 277	$ 481

Non-real estate-related(1)	4,268	1,917	4,141	1,863
Real estate held through direct ownership(2)	1,543	0	1,559	0
Other(3)	1,239	(324)	1,195	(320)
Total other long-term investments	$ 7,326	$ 2,084	$ 7,172	$ 2,024

(1) Primarily includes investments in private equity and hedge funds.

(2) Primarily includes investments in office buildings within our Japanese insurance operations.

(3) Primarily includes derivatives and member and activity stock held in the Federal Home Loan Banks of New York and Boston. For additional information regarding our holdings in the Federal Home Loan Banks of New York and Boston, see Note 9 to the Unaudited Interim Consolidated Financial Statements.

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Invested Assets of Other Entities and Operations

Invested Assets of Other Entities and Operations includes investments held outside the general account and primarily represents investments associated with our asset management operations and derivative operations. Our derivative operations act on behalf of affiliates primarily to manage interest rates, foreign currency, credit and equity exposures. Assets within our asset management operations that are managed for third parties and those assets classified as Separate account assets on our balance sheet are not included.

	March 31, 2014	December 31, 2013
	(in millions)	
Fixed Maturities:		
Public, available-for-sale, at fair value	$ 243	$ 242
Private, available-for-sale, at fair value	69	73
Other trading account assets, at fair value	6,328	4,770
Equity securities, available-for-sale, at fair value	7	7
Commercial mortgage and other loans, at book value(1)	163	202
Other long-term investments	1,067	1,132
Short-term investments	131	392
Total investments	$ 8,008	$ 6,818

(1) Book value is generally based on unpaid principal balance net of any allowance for losses, the lower of cost or fair value, or fair value, depending on the loan.

Other Trading Account Assets

Other trading account assets are primarily related to assets associated with consolidated variable interest entities, for which the Company is the investment manager, as well as our derivative operations used to manage interest rate, foreign currency, credit and equity exposures. For further information on these consolidated variable interest entities, see Note 5 to the Unaudited Interim Consolidated Financial Statements.

Commercial Mortgage and Other Loans

Our asset management operations include our commercial mortgage operations, which provide mortgage origination, asset management and servicing for our general account, institutional clients, and government sponsored entities such as Fannie Mae, the Federal Housing Administration and Freddie Mac. The decrease in commercial mortgage and other loans from December 31, 2013 to March 31, 2014, primarily relates to loans we have pre-arranged to sell to government sponsored entities.

We also carry shorter-term interim loans for spread lending that are collateralized by assets generally under renovation or lease up. All else being equal, these interim loans are inherently more risky than those collateralized by properties that have already stabilized. Our interim loans are generally paid off through refinancing or the sale of the underlying collateral by the borrower.

As of March 31, 2014, we hold no commercial real estate held-for-sale related to foreclosed interim loans. The mortgage loans of our commercial mortgage operations are included in "Commercial mortgage and other loans," with related derivatives and other hedging instruments primarily included in "Other trading account assets" and "Other long-term investments."

Other Long-Term Investments

Other long-term investments primarily include strategic investments made as part of our asset management operations. We make these strategic investments in real estate, as well as fixed income, public equity and real

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estate securities, including controlling interests. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other strategic investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). As part of our asset management operations, we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds. Other long-term investments also include certain assets in consolidated investment funds where the company is deemed to exercise control over the funds.

Liquidity and Capital Resources

This section supplements and should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Overview

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

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

Prudential Financial is a Designated Financial Company under the Dodd-Frank Act. As a Designated Financial Company, Prudential Financial is subject to supervision and examination by the Federal Reserve Bank of Boston and to prudential regulatory standards, which include or will include requirements and limitations (some of which are the subject of ongoing rule-making) relating to risk-based capital, leverage, liquidity, stress-testing, overall risk management, resolution plans, early remediation; and may also include additional standards regarding capital, public disclosure, short-term debt limits, and other related subjects. In addition, the Financial Stability Board, consisting of representatives of national financial authorities of the G20 nations, has identified the Company as a global systemically important insurer. For information on these recent actions and their potential impact on us, see Executive Summary Regulatory Developments above, as well as Business Regulation and Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2013.

During the three months ended March 31, 2014, we took the following significant actions that impacted our liquidity and capital position:

- We repurchased $250 million of shares of our Common Stock and declared aggregate Common Stock dividends of $247 million; and

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We formed a new captive reinsurance subsidiary and executed internal financing of $250 million through this captive for non-economic reserves required to be held by our domestic insurance subsidiaries under Regulation XXX.

Capital

The primary components of capitalization for the Financial Services Businesses consist of the equity we attribute to the Financial Services Businesses and its outstanding capital debt, including junior subordinated debt. As shown in the table below, as of March 31, 2014, the Financial Services Businesses had $36.8 billion in capital, all of which was available to support the aggregate capital requirements of its three divisions and its Corporate and Other operations. Based on our assessment of these businesses and operations, we believe this level of capital is consistent with our ratings targets.

	March 31, 2014	December 31, 2013
	(in millions)	
Attributed Equity(1)	$ 26,117	$ 25,299
Junior subordinated debt (i.e. hybrid securities)	4,884	4,884
Other capital debt	5,752	5,345
Total capital	$ 36,753	$ 35,528

(1) Excludes AOCI. This amount may be subject to volatility due to, among other things, the impact of foreign currency exchange rate movements on certain non-yen denominated assets and liabilities within our Japanese insurance operations, for which the foreign currency exposure is economically matched and offset in AOCI (see Results of Operations for Financial Services Businesses by Segment International Insurance Division Impact of foreign currency exchange rate movements on earnings U.S. GAAP earnings impact of products denominated in non-local currencies for additional information).

We manage Prudential Insurance, Prudential of Japan, Gibraltar Life, and our other domestic and international insurance subsidiaries to regulatory capital levels consistent with our AA ratings targets. We utilize the Risk-Based Capital, or RBC, ratio as a primary measure of the capital adequacy of our domestic insurance subsidiaries and the Solvency Margin ratio as a primary measure of the capital adequacy of our Japanese insurance subsidiaries.

The table below presents the RBC ratios of certain of our domestic insurance subsidiaries as of December 31, 2013(1):

Prudential Insurance	456%
Prudential Annuities Life Assurance Corporation	502%

(1) The RBC ratio calculations are intended to assist insurance regulators in measuring an insurer s solvency and ability to pay future claims. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities but is available to the public.

The table below presents the Solvency Margins of our most significant international insurance subsidiaries as of December 31, 2013. As of March 31, 2014, their most recent statutory fiscal year end, the Solvency Margins were greater than 700%.

	As of December 31, 2013
Prudential of Japan	772%
Gibraltar Life consolidated(1)	937%

(1) Includes Prudential Gibraltar Financial Life, a wholly-owned subsidiary of Gibraltar Life.

All of our domestic and international insurance subsidiaries have capital levels that exceed the minimum level required by applicable insurance regulations.

The regulatory capital levels of our domestic and international insurance subsidiaries can be materially impacted by interest rates, equity market and real estate market fluctuations, changes in the values of derivatives, the level of impairments recorded, credit quality migration of our investment portfolio, foreign exchange rate movements and business growth, among other items. In addition, particularly for our domestic insurance subsidiaries, the recapture of business subject to third-party reinsurance arrangements due to, for example, defaults by, or credit quality migration affecting, the third-party reinsurers could negatively impact regulatory capital.

Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. As discussed above in Executive Summary Regulatory Developments, the NY DFS has notified us that it does not agree with our calculation of statutory reserves (including the applicable credit for reinsurance) for New York purposes in respect of certain variable annuity 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 products or other products, our ability to deploy capital held within our domestic insurance subsidiaries for other purposes could be affected.

In addition, the NAIC recently proposed new guidance regarding the calculation of total adjusted capital , or TAC, that will directly affect the calculation of the RBC ratio. The new guidance, which is expected to be effective for December 31, 2014, would limit the portion of an insurer s asset valuation reserve that can be counted as TAC to the amount not utilized in asset adequacy testing. We are currently assessing the impact of this guidance on the RBC ratios for our domestic insurance subsidiaries.

We employ a Capital Protection Framework to ensure that sufficient capital resources are available to maintain adequate capitalization on a consolidated basis and competitive RBC ratios and solvency margins for our insurance subsidiaries under various stress scenarios. The Capital Protection Framework incorporates the potential impacts from market related stresses, including equity markets, real estate, interest rates, credit losses, and foreign currency exchange rates. Potential sources of capital include on-balance sheet capital, derivatives, reinsurance and contingent sources of capital. Although we continue to enhance our approach, we believe we currently have access to sufficient resources to maintain adequate capitalization and competitive RBC ratios and solvency margins under a range of potential stress scenarios.

Captive Reinsurance Companies

We use captive reinsurance companies in our domestic insurance operations to more effectively manage our reserves and capital on an economic basis and to enable the aggregation and transfer of risks. Our captive reinsurance companies assume business from affiliates only. To support the risks they assume, our captives are capitalized to a level we believe is consistent with the AA financial strength rating targets of our insurance subsidiaries. All of our captive reinsurance companies are wholly-owned subsidiaries and are located domestically, typically in the state of domicile of the direct writing insurance subsidiary that cedes the majority of business to the captive. In addition to state insurance regulation, our captives are subject to internal policies governing their activities. Prudential Financial provides support to these captives, typically through net worth maintenance agreements, and in the normal course of business will contribute capital to the captives to support business growth and other needs. In addition, in connection with financing arrangements, Prudential Financial may guarantee certain of the captives obligations.

The NAIC, the NY DFS and other regulators continue to review life insurers use of captive reinsurance companies. In February 2014, Rector & Associates, Inc., a consulting firm commissioned by the NAIC, issued a report to the NAIC that recommends placing limitations on the types of assets that may be used to finance reserves associated with certain term and universal life insurance policies and requiring captive reinsurers to

collateralize their reinsurance obligations. In addition, in March 2014, a committee of the NAIC 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. We cannot predict what, if any, changes may result from these reviews. If insurance laws are changed in a way that restricts our use of captive reinsurance companies in the future, our ability to write certain products and efficiently manage their associated risks could be adversely affected and we may need to increase prices on certain products, modify certain products or find alternate financing sources, any of which could adversely affect our competitiveness, capital and financial position and results of operations. Given the uncertainty of the ultimate outcome of these reviews, at this time we are unable to estimate their expected effects on our future capital and financial position and results of operations.

Our domestic life insurance subsidiaries are subject to a regulation entitled Valuation of Life Insurance Policies Model Regulation, commonly known as Regulation XXX, and a supporting guideline entitled The Application of the Valuation of Life Insurance Policies Model Regulation, commonly known as Guideline AXXX. The regulation and supporting guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that these levels of reserves are non-economic. We use captive reinsurance companies to implement reinsurance and capital management actions to satisfy these reserve requirements by financing the non-economic reserves through the issuance of surplus notes by the captives, which are treated as capital for statutory purposes. For more information about our financing of non-economic reserves, see Financing Activities below.

We reinsure living benefit guarantees on certain variable annuity and retirement products from our domestic life insurance companies to a captive reinsurance company, Pruco Reinsurance, Ltd. (Pruco Re). This enables us to aggregate these risks within Pruco Re and manage them more efficiently through a hedging program. We believe Pruco Re currently maintains an adequate level of capital and access to liquidity to support this hedging program. However, as discussed below under Liquidity associated with other activities Hedging activities associated with living benefit guarantees, Pruco Re s capital and liquidity needs can vary significantly due to, among other things, changes in equity markets, interest rates, mortality and policyholder behavior. Through our Capital Protection Framework, we hold on-balance sheet capital and maintain access to committed sources of capital that are available to meet these needs as they arise.

We reinsure 90% of the short-term risks of Prudential Insurance s Closed Block Business to a captive reinsurance company domiciled in New Jersey. These short-term risks represent the impact of variations in experience of the Closed Block that are expected to be recovered over time as a result of corresponding adjustments to policyholder dividends. The reinsurance arrangement is intended to alleviate the short-term statutory surplus volatility within Prudential Insurance resulting from the Closed Block Business, including volatility caused by the impact of any unrealized mark-to-market losses and realized credit losses within its investment portfolio. To support the captive s funding obligations under the reinsurance arrangement, we maintain a $2.0 billion letter of credit facility with unaffiliated financial institutions through which the captive can obtain a letter of credit during an availability period expiring in October 2015. Prudential Financial guarantees all obligations of the New Jersey captive under the facility, including its obligation to reimburse any draws made under the letter of credit. Because experience of the Closed Block is ultimately passed along to policyholders over time through the annual policyholder dividend, we believe that a draw under the letter of credit is unlikely. Our ability to obtain a letter of credit under the facility is subject to the continued satisfaction of customary conditions similar to those contained in our credit facilities described in Note 9 to our Unaudited Interim Consolidated Financial Statements.

Shareholder Distributions

In June 2013, our Board of Directors authorized the Company to repurchase at management s discretion up to $1.0 billion of its outstanding Common Stock during the period from July 1, 2013 through June 30, 2014. The timing and amount of share repurchases will be determined by management based on market conditions and other considerations, including increased capital needs of our businesses due to changes in regulatory capital requirements and opportunities for growth and acquisitions. Repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through plans designed to comply with Rule 10b5-1(c) under the Exchange Act. The following table sets forth information about declarations of Common Stock dividends, as well as repurchases of shares of Prudential Financial s Common Stock for the three months ended March 31, 2014:

	Dividend Amount		Shares Repurchased	
Three months ended:	**Per Share**	**Aggregate**	**Shares**	**Total Cost**
	(in millions, except per share data)			
March 31, 2014	$ 0.53	$ 247	2.9	$ 250

As a Designated Financial Company under Dodd-Frank, Prudential Financial expects to be subject to minimum risk-based capital and leverage requirements and to the submission of annual capital plans to the Federal Reserve System. Prudential Financial s compliance with these and other requirements under Dodd-Frank could limit its ability to pay Common Stock dividends and repurchase shares in the future.

Liquidity

Liquidity management and stress testing are performed on a legal entity basis as the ability to transfer funds between subsidiaries is limited due in part to regulatory restrictions. Liquidity needs are determined through daily and quarterly cash flow forecasting at the holding company and within our operating subsidiaries. A minimum cash balance of $1.3 billion is targeted to ensure that adequate liquidity is available at Prudential Financial to cover fixed expenses in the event that we experience reduced cash flows from our operating subsidiaries. This targeted minimum balance is reviewed and approved annually by the Finance Committee of the Board of Directors.

To mitigate the risk of having limited or no access to financing due to stressed market conditions, we generally prefund capital debt in advance of maturity. We mitigate the refinancing risk associated with our debt that is used to fund operating needs by matching the term of debt with the assets financed. To ensure adequate liquidity in stress scenarios, stress testing is performed on a quarterly basis for our major operating subsidiaries. Liquidity risk is further mitigated by our access to the alternative sources of liquidity discussed below.

Liquidity of Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends and returns of capital from subsidiaries, repayments of operating loans from subsidiaries and cash and short-term investments. These sources of funds may be supplemented by Prudential Financial s access to the capital markets as well as the Alternative Sources of Liquidity described below.

The primary uses of funds at Prudential Financial include servicing debt, paying operating expenses, making capital contributions and loans to subsidiaries, paying declared shareholder dividends, and repurchasing outstanding shares of Common Stock executed under Board authority.

As of March 31, 2014, Prudential Financial had cash and short-term investments of $4,635 million, a decrease of $920 million from December 31, 2013. We maintain an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Excluding net borrowings from this intercompany liquidity account, Prudential Financial had cash and short-term investments of $3,466 million as of March 31, 2014, a decrease of $888 million from December 31, 2013.

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The following table sets forth Prudential Financial s principal sources and uses of cash and short-term investments, excluding net borrowings from our intercompany liquidity account, for the period indicated.

	Three Months Ended March 31, 2014 (in millions)
Sources:	
Dividends and/or returns of capital from subsidiaries(1)	$ 237
Proceeds from stock-based compensation and exercise of stock options	118
Proceeds from short-term debt, net of repayments	36
Interest income from subsidiaries on intercompany agreements, net of interest paid	31
Total sources	422
Uses:	
Net payments under intercompany loan agreements(2)	316
Share repurchases(3)	250
Common Stock dividends(4)	247
Interest paid on external debt	176
Net income tax payments	170
Capital contributions to subsidiaries(5)	50
Repayment of retail medium-term notes	14
Class B Stock dividends	5
Other, net	82
Total uses	1,310
Net increase (decrease) in cash and short-term investments	$ (888)

(1) Includes dividends and/or returns of capital of $119 million from asset management subsidiaries, $102 million from international subsidiaries and $16 million from other subsidiaries.
(2) Includes net borrowings by subsidiaries of $250 million by Prudential Term Reinsurance Company and $67 million by asset management subsidiaries, offset by $1 million of repayments from subsidiaries.
(3) Excludes $12 million related to trades that settled in April 2014.
(4) Includes cash payments made on dividends declared in prior periods.
(5) Includes capital contributions of $32 million to international subsidiaries and $18 million to Pruco Re.

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance companies are subject to limitations on the payment of dividends and other transfers of funds to Prudential Financial and other affiliates under applicable insurance law and regulation. Also, more generally, the payment of dividends by any of our subsidiaries is subject to declaration by their Board of Directors and can be affected by market conditions and other factors. See Note 15 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013 for details on specific dividend restrictions

Domestic insurance subsidiaries. Prudential Insurance is permitted to pay ordinary dividends based on calculations specified under New Jersey insurance law, subject to prior notification to the New Jersey Department of Banking and Insurance (NJDOBI). Any distributions above this amount in any 12-month period are considered to be extraordinary dividends, and the approval of NJDOBI is required prior to payment. The laws regulating dividends of the states where our other domestic insurance companies are domiciled are similar, but not identical, to New

Jersey s.

International insurance subsidiaries. Our international insurance subsidiaries are subject to dividend restrictions from the regulatory authorities in the international jurisdictions in which they operate. During the

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first three months of 2014, Prudential of Korea paid a dividend of (Won)35.0 billion or approximately $33 million to its parent, Prudential International Insurance Holdings Ltd. of which $29 million was ultimately sent to Prudential Financial.

Other subsidiaries. The ability of our asset management subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint.

Liquidity of Insurance Subsidiaries

There have been no material changes to the liquidity position of our domestic and international insurance subsidiaries since December 31, 2013. We continue to believe that cash generated by ongoing operations and the liquidity profile of our assets provide sufficient liquidity under reasonably foreseeable stress scenarios for each of our insurance subsidiaries.

The principal sources of liquidity for our insurance subsidiaries are premiums and certain annuity considerations, investment and fee income, and investment maturities and sales associated with our insurance and annuity operations, as well as internal and external borrowings. The principal uses of that liquidity include benefits, claims, dividends paid to policyholders, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, hedging activity and payments in connection with financing activities. We use a projection process for cash flows from operations to ensure sufficient liquidity is available to meet projected cash outflows, including claims.

We manage the liquidity of our insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity within each of our insurance subsidiaries is provided by a variety of sources, including portfolios of liquid assets. The investment portfolios of our subsidiaries are integral to the overall liquidity of our insurance operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of each of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities.

The following table sets forth the fair value of certain of our domestic insurance operations portfolio of liquid assets, including cash and short-term investments, fixed maturity investments other than those designated as held-to-maturity, classified by NAIC or equivalent rating, and public equity securities, as of the dates indicated.

	March 31, 2014				
	Prudential Insurance	**PRIAC**	**Other(1)**	**Total**	**December 31, 2013**
			(in billions)		
Cash and short-term investments	$ 6.1	$ 1.0	$ 0.8	$ 7.9	$ 8.3
Fixed maturity investments:					
High or highest quality	125.7	19.0	8.5	153.2	149.2
Other than high or highest quality	8.8	1.4	0.7	10.9	10.5
Subtotal	134.5	20.4	9.2	164.1	159.7
Public equity securities	4.4	0.0	0.0	4.4	4.3

Total	$ 145.0	$ 21.4	$ 10.0	$ 176.4	$ 172.3

(1) Includes Prudential Annuities Life Assurance Corporation (PALAC) and Pruco Life Insurance Company (Pruco Life).

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The following table sets forth the fair value of our international insurance operations portfolio of liquid assets, including cash and short-term investments, fixed maturity investments other than those designated as held-to-maturity, classified by NAIC or equivalent rating, and public equity securities, as of the dates indicated.

	March 31, 2014				
	Prudential of Japan	Gibraltar Life(1)	All Other(2)	Total	December 31, 2013
			(in billions)		
Cash and short-term investments	$ 1.1	$ 2.0	$ 1.0	$ 4.1	$ 3.3
Fixed maturity investments:					
High or highest quality(3)	27.6	85.9	12.7	126.2	123.5
Other than high or highest quality	0.4	2.1	0.2	2.7	2.8
Subtotal	28.0	88.0	12.9	128.9	126.3
Public equity securities	1.6	2.3	0.4	4.3	4.4
Total(4)	$ 30.7	$ 92.3	$ 14.3	$ 137.3	$ 134.0

(1) Includes Prudential Gibraltar.
(2) Represents our international insurance operations, excluding Japan.
(3) Of the $126.2 billion of fixed maturity investments that are not designated as held to-maturity and considered high or highest quality as of March 31, 2014, $88.8 billion, or 70%, were invested in government or government agency bonds.
(4) The increase in liquid assets from December 31, 2013 was driven by business growth and appreciation of the yen relative to the U.S. dollar.

Liquidity associated with other activities

Hedging activities associated with living benefit guarantees

As discussed in Captive Reinsurance Companies above, we reinsure living benefit guarantees on certain variable annuity and retirement products from our domestic life insurance companies to Pruco Re. This enables us to execute our living benefit hedging program primarily within a single legal entity. As part of the living benefit hedging program, we enter into a range of exchange-traded, cleared and other over the counter equity and interest rate derivatives to hedge certain optional living benefit features accounted for as embedded derivatives against changes in certain capital market conditions such as interest rates and equity index levels. For a full discussion of our living benefits hedging program, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities. Pruco Re requires access to liquidity to meet its payment obligations under this program, such as payments for periodic settlements, purchases, maturities, terminations and breakage. Pruco Re s liquidity needs can vary materially due to, among other items, changes in interest rates, equity markets, mortality and policyholder behavior. Currently, we fund these liquidity needs with a combination of capital contributions and loans from Prudential Financial and other affiliates.

The living benefits hedging activity in Pruco Re may also result in collateral postings on derivatives to or from counterparties. The net collateral position depends on changes in interest rates and equity markets related to the amount of the exposures hedged. Depending on market conditions, the collateral posting requirements can result in material liquidity needs. In addition, certain derivatives entered into on or after June 10, 2013 are subject to mandatory clearing requirements under the Dodd-Frank Act. These cleared derivatives typically have additional collateral requirements. As of March 31, 2014, the living benefit hedging derivatives were in a net receive position of $0.9 billion compared to a net posting position of $0.4 billion as of December 31, 2013. The change in position was primarily driven by a decline in interest rates.

Additionally, in certain cases, state insurance law requires reinsurers, such as Pruco Re, to collateralize their obligations under a reinsurance agreement to permit the ceding company to claim statutory reinsurance reserve credit for the business ceded. Because our subsidiaries Pruco Life and PALAC are domiciled in the State of

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Arizona (as is Pruco Re), they are able to claim reinsurance reserve credit for business ceded to Pruco Re without the need for Pruco Re to post collateral. However, Pruco Re must post collateral with respect to business ceded to it by our subsidiaries Pruco Life Insurance Company of New Jersey (PLNJ) and Prudential Retirement Insurance and Annuity Company (PRIAC). We satisfy collateral posting requirements by depositing assets into statutory reserve credit trusts. Funding needs for the statutory reserve credit trusts are separate and distinct from capital needs of Pruco Re. However, assets pledged to the statutory reserve credit trusts may include assets supporting the capital of Pruco Re provided that they meet eligibility requirements prescribed by the Arizona Department of Insurance. Reinsurance reserve credit requirements and the amount of assets required to be pledged can vary substantially due to changes in equity markets, interest rates, actuarial assumptions and other factors. The statutory reserve credit trusts for PLNJ required collateral of $7 million as of both March 31, 2014 and December 31, 2013. The statutory reserve credit trust for PRIAC required collateral of $13 million as of both March 31, 2014 and December 31, 2013.

Foreign exchange hedging activities

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, particularly those associated with the Japanese yen. Our overall yen hedging strategy calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company s overall return on equity. For further information on our hedging strategies, see Results of Operations for Financial Services Businesses by Segment International Insurance Division. Our hedging strategies, which include both internal and external hedging programs, may impact the liquidity positions of both Prudential Financial and our international insurance subsidiaries.

The internal-only hedges are between Prudential Financial (through a subsidiary) and certain of our yen-based entities and serve to hedge changes in the market value of U.S. dollar-denominated investments held on the books of these yen-based entities attributable to changes in the yen-dollar exchange rate. These U.S. dollar-denominated investments are part of our hedging strategy to mitigate the impact of foreign currency exchange rate movements on our U.S. dollar-equivalent equity. Absent an internal hedge, changes in the market value of these U.S. dollar-denominated investments attributable to changes in the yen-dollar exchange rate would create volatility in the solvency margins of these subsidiaries. To minimize this volatility, we enter into inter-company hedges. Cash settlements from these hedging activities result in cash flows between Prudential Financial and these yen-based subsidiaries. The cash flows are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. During the first three months of 2014, Prudential Financial received $267 million of net cash settlements related to the internal hedge program, which were paid by the yen-based subsidiaries. As of March 31, 2014, the market value of the internal hedges was an asset of $460 million due from the yen-based subsidiaries. A significant yen depreciation over an extended period of time could result in additional net cash inflows to Prudential Financial. Conversely, a significant yen appreciation could result in net cash outflows from Prudential Financial.

Our external hedges primarily serve to hedge a portion of our prospective non-U.S. dollar-denominated earnings streams and, to a lesser extent, our U.S. dollar-equivalent equity. The external hedges are between a subsidiary of Prudential Financial and external parties. Cash settlements on these activities result in cash flows between the Company and the external parties and are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. During the first three months of 2014, the Company received $69 million of net cash settlements related to these external hedges. As of March 31, 2014, the net asset related to these external foreign currency hedges was $673 million. A significant depreciation in the yen and other foreign currencies over an extended period of time could result in additional net cash inflows to the Company, while a significant appreciation in the yen and other foreign currencies over an extended period of time could result in additional net cash outflows from the Company.

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Asset Management operations

The principal sources of liquidity for our fee-based asset management businesses include asset management fees and commercial mortgage origination and servicing fees. The principal uses of liquidity include general and administrative expenses and distributions of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee-based asset management businesses relate to their profitability, which is impacted by market conditions and our investment management performance. We believe the cash flows from our fee-based asset management businesses are adequate to satisfy the current liquidity requirements of these operations, as well as requirements that could arise under reasonably foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our strategic investments and interim loans held in our asset management businesses are cash flows from investments, the ability to liquidate investments, and available borrowing lines from internal sources, including Prudential Funding, LLC (Prudential Funding), a wholly-owned subsidiary of Prudential Insurance, and Prudential Financial. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults. There were no material changes to the liquidity position of our asset management operations since December 31, 2013.

Alternative Sources of Liquidity

In addition to the sources of liquidity discussed throughout this section, Prudential Financial and certain subsidiaries have access to the following alternative sources of liquidity:

- Asset-based financing, as discussed further below.

- Membership in the Federal Home Loan Banks, which provides Prudential Insurance and PRIAC the ability to obtain loans and to issue funding agreements up to specified regulatory limits that are collateralized by qualifying mortgage-related assets or U.S. Treasury securities. As of March 31, 2014, Prudential Insurance had an estimated maximum borrowing capacity of $7.2 billion, of which $2.2 billion was outstanding. PRIAC had an estimated maximum borrowing capacity of $0.2 billion with no advances outstanding. As of March 31, 2014, Prudential Insurance and PRIAC had qualifying assets available but not pledged with fair value of $3.3 billion and $2.1 billion, respectively.

- Commercial paper programs maintained at Prudential Financial and Prudential Funding, with authorized issuance capacity of $3.0 billion and $7.0 billion, respectively, of which $226 million and $747 million, respectively, were outstanding as of March 31, 2014.

- Credit facilities in an aggregate amount of $3.75 billion, which includes a $2 billion facility expiring in November 2018 that has Prudential Financial as borrower and a $1.75 billion facility expiring in November 2016 that has both Prudential Financial and Prudential Funding as borrowers. There were no outstanding borrowings under these credit facilities as of March 31, 2014 or as of the date of this filing.

- A put option agreement giving Prudential Financial the right to issue up to $1.5 billion in senior notes due November 2023 to a trust entity at any time over a ten year period in return for principal and interest strips of U.S. Treasury securities.

For further information on our Federal Home Loan Bank memberships, commercial paper programs, credit facilities and the put option agreement, see Note 9 to our Unaudited Interim Consolidated Financial Statements.

Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls to earn spread income, to borrow funds, or to facilitate trading activity. These programs are primarily driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments, mortgage loans and fixed maturities, including mortgage- and asset-backed securities, with a weighted average life at time of purchase by the short-term portfolios of four years or less. Floating rate assets comprise the majority of our short-term spread portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

The following table sets forth our liabilities under asset-based or secured financing programs attributable to the Financial Services Businesses and Closed Block Business as of the dates indicated.

	March 31, 2014			December 31, 2013		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
	(in millions)					
Securities sold under agreements to repurchase	$ 4,864	$ 3,484	$ 8,348	$ 4,128	$ 3,770	$ 7,898
Cash collateral for loaned securities	4,035	1,247	5,282	4,230	810	5,040
Securities sold but not yet purchased	120	0	120	56	0	56
Total(1)	$ 9,019	$ 4,731	$ 13,750	$ 8,414	$ 4,580	$ 12,994
Portion of above securities that may be returned to the Company overnight requiring immediate return of the cash collateral	$ 6,925	$ 2,547	$ 9,472	$ 6,503	$ 2,273	$ 8,776
Weighted average maturity, in days(2)	32	61		39	71	

(1) The daily weighted average outstanding for the three months ended March 31, 2014 was $8,191 million for the Financial Services Businesses and $4,878 million for the Closed Block Business.
(2) Excludes securities that may be returned to the Company overnight.

Outstanding liabilities under these programs increased $0.8 billion due primarily to attractive cash collateral reinvestment opportunities.

As of March 31, 2014, our insurance entities had assets eligible for the asset-based or secured financing programs of $102.1 billion, of which $13.3 billion were on loan. Taking into account market conditions and outstanding loan balances as of March 31, 2014, we believe approximately $28.1 billion of the remaining eligible assets are readily lendable, including approximately $21.5 billion related to the Financial Services Businesses, of which $6 billion relates to certain separate accounts and may only be used for financing activities related to those accounts.

In addition, as of March 31, 2014, our Closed Block Business had outstanding mortgage dollar rolls, under which we are committed to repurchase $0.8 billion of mortgage-backed securities, or TBA forward contracts. These repurchase agreements do not qualify as secured borrowings and are accounted for as derivatives. These mortgage-backed securities are considered high or highest quality based on NAIC or equivalent rating.

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Financing Activities

As of March 31, 2014, total short- and long-term debt of the Company on a consolidated basis was $26.6 billion, an increase of $0.4 billion from December 31, 2013. The following table sets forth total consolidated borrowings of the Company as of the dates indicated. We may, from time to time, seek to redeem or repurchase our outstanding debt securities through open market purchases, individually negotiated transactions or otherwise. Any such repurchases will depend on prevailing market conditions, our liquidity position and other factors.

	March 31, 2014			December 31, 2013		
	Prudential Financial	Other Subsidiaries	Consolidated	Prudential Financial	Other Subsidiaries	Consolidated
	(in millions)					
General obligation short-term debt:						
Commercial paper	$ 226	$ 747	$ 973	$ 190	$ 460	$ 650
Current portion of long-term debt and other(1)	2,552	419	2,971	1,531	413	1,944
Subtotal	2,778	1,166	3,944	1,721	873	2,594
General obligation long-term debt:						
Senior debt(1)(2)	10,428	1,512	11,940	11,462	1,466	12,928
Junior subordinated debt	4,884	0	4,884	4,884	0	4,884
Surplus notes(3)	0	4,141	4,141	0	4,141	4,141
Subtotal	15,312	5,653	20,965	16,346	5,607	21,953
Total general obligations	18,090	6,819	24,909	18,067	6,480	24,547
Limited recourse borrowing(4):						
Current portion of long-term debt	0	75	75	0	75	75
Long-term debt	0	1,600	1,600	0	1,600	1,600
Total limited recourse borrowings	0	1,675	1,675	0	1,675	1,675
Total borrowings	$ 18,090	$ 8,494	$ 26,584	$ 18,067	$ 8,155	$ 26,222

(1) Does not include $2,381 million of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes at both March 31, 2014 and December 31, 2013, or $1,947 million of collateralized funding agreements issued to the Federal Home Loan Bank of New York as of both March 31, 2014 and December 31, 2013. These notes and funding agreements are included in Policyholders account balances. For additional information on these obligations, see Note 9 to our Unaudited Interim Consolidated Financial Statements and Note 10 to the Consolidated Financial Statements included in our 2013 Annual Report on Form-10K.

(2) Includes collateralized borrowings from the Federal Home Loan Bank of New York of $280 million at both March 31, 2014 and December 31, 2013. For additional information on these borrowings, see Note 9 to our Unaudited Interim Consolidated Financial Statements.

(3) Amounts are net of assets under set-off arrangements of $2,400 million, as of both March 31, 2014 and December 31, 2013.

(4) Limited and non-recourse borrowing represents outstanding debt of Prudential Holdings, LLC that is attributable to the Closed Block Business. See Prudential Holdings, LLC Notes within Note 14 to the Consolidated Financial Statements included our 2013 Annual Report on Form 10-K for additional information.

The outstanding amount of Prudential Financial s borrowings of $18.1 billion was relatively unchanged from December 31, 2013. Borrowings of our subsidiaries of $8.5 billion increased $0.3 billion from December 31, 2013, primarily due to an increase in commercial paper issued by Prudential Funding, LLC.

As we continue to underwrite term and universal life insurance business, we expect to have additional borrowing needs to finance non-economic reserves required under Regulation XXX and Guideline AXXX. We believe we have sufficient financing resources in place to meet our financing needs under Guideline AXXX through 2014. During the first three months of 2014, a newly-formed captive reinsurance subsidiary issued a

$250 million surplus note to an affiliate to finance Regulation XXX non-economic reserves associated with term life sales in 2014. In addition, in April 2014, one of our captives issued an additional $250 million of surplus notes in return for an equal amount of credit-linked notes under our $2 billion facility for the third-party financing of Regulation XXX reserves associated with term life business written from 2010 to 2013. Following that issuance, an aggregate of $1.75 billion of surplus notes were outstanding under that facility. Because valid rights of set-off exist, interest and principal payments on the surplus notes and credit-linked notes issued through the facility are settled on a net basis, and the surplus notes are reflected in the Company s total consolidated borrowings on a net basis. We are currently pursuing further solutions to address Regulation XXX financing needs generated by our expected sales of term life insurance policies for the remainder of 2014.

As of March 31, 2014 and December 31, 2013, we were in compliance with all debt covenants related to the borrowings in the table above. For further information on our short- and long-term debt obligations, see Note 9 to our Unaudited Interim Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013.

Ratings

Financial strength ratings (which are sometimes referred to as claims-paying ratings) and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. Nationally Recognized Statistical Ratings Organizations continually review the financial performance and financial condition of the entities they rate, including Prudential Financial and its rated subsidiaries. Our credit ratings are also important for our ability to raise capital through the issuance of debt and for the cost of such financing.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements and/or hurt our relationships with creditors, distributors, or trading counterparties thereby potentially negatively affecting our profitability, liquidity, and/or capital. In addition, we consider our own risk of non-performance in determining the fair value of our liabilities. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities.

Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity s ability to repay its indebtedness. The following table summarizes the ratings for Prudential Financial and certain of its subsidiaries as of the date of this filing.

	A.M. Best(1)	S&P(2)	Moody s(3)	Fitch(4)
Last review date	**5/7/2014**	**12/11/2013**	**7/11/2013**	**7/25/2013**
Current outlook	**Stable**	**Stable(5)**	**Stable**	**Stable**
Financial Strength Ratings:				
The Prudential Insurance Company of America	A+	AA-	A1	A+
Pruco Life Insurance Company	A+	AA-	A1	A+
Pruco Life Insurance Company of New Jersey	A+	AA-	NR*	A+
Prudential Annuities Life Assurance Corporation	A+	AA-	NR	A+
Prudential Retirement Insurance and Annuity Company	A+	AA-	A1	A+
The Prudential Life Insurance Company Ltd. (Prudential of Japan)	NR	AA-	NR	NR
Gibraltar Life Insurance Company, Ltd.	NR	AA-	NR	NR
The Prudential Gibraltar Financial Life Insurance Co. Ltd.	NR	AA-	NR	NR
Prudential Life Insurance Co. of Taiwan, Inc.(6)	NR	twAA+	NR	NR
Credit Ratings:				
Prudential Financial, Inc.:				
Short-term borrowings	AMB-1	A-1	P-2	F2
Long-term senior debt	a-	A	Baa1	BBB+
Junior subordinated long-term debt	bbb	BBB+	Baa2	BBB-
The Prudential Insurance Company of America:				
Capital and surplus notes	a	A	A3	A-
Prudential Funding, LLC:				
Short-term debt	AMB-1	A-1+	P-1	F1
Long-term senior debt	a+	AA-	A2	A
PRICOA Global Funding I:				
Long-term senior debt	aa-	AA-	A1	A+

* NR indicates not rated.

(1) A.M. Best Company, which we refer to as A.M. Best, financial strength ratings for insurance companies currently range from A++ (superior) to S (Suspended). A.M. Best s ratings reflect its opinion of an insurance company s financial strength, operating performance and ability to meet its obligations to policyholders. An A.M. Best long-term credit rating is an opinion of the ability of an obligor to pay interest and principal in accordance with the terms of the obligation. A.M. Best long-term credit ratings range from aaa (exceptional) to d (in default), with ratings from aaa to bbb considered as investment grade. An A.M. Best short-term credit rating reflects an opinion of the issuer s fundamental credit quality. Ratings range from AMB-1+, which represents an exceptional ability to repay short-term debt obligations, to AMB-4, which correlates with a speculative (bb) long-term rating.

(2) Standard & Poor s Rating Services, which we refer to as S&P, financial strength ratings currently range from AAA (extremely strong) to R (regulatory supervision). These ratings reflect S&P s opinion of an operating insurance company s financial capacity to meet the obligations of its insurance policies in accordance with their terms. A + or - indicates relative strength within a category. An S&P credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program. S&P s long-term issue credit ratings range from AAA (extremely strong) to D (default). S&P short-term ratings range from A-1 (highest category) to D (default).

(3) Moody s Investors Service, Inc., which we refer to as Moody s, insurance financial strength ratings currently range from Aaa (exceptional) to C (lowest). Moody s insurance ratings reflect the ability of insurance companies to repay punctually senior policyholder claims and obligations. Numeric modifiers are used to refer to the ranking within the group with 1 being the highest and 3 being the lowest. These modifiers are used to indicate relative strength within a category. Moody s credit ratings currently range from Aaa (highest) to C (default). Moody s credit ratings grade debt according to its investment quality. Moody s considers A1, A2 and A3 rated debt to be upper medium grade obligations, subject to low credit risk. Moody s short-term ratings are opinions of the ability of issuers to honor senior financial obligations and contracts. Prime ratings range from Prime-1 (P-1), which represents a superior ability for repayment of senior short-term debt obligations, to Prime-3 (P-3), which represents an acceptable ability for repayment of such obligations. Issuers rated Not Prime do not fall within any of the Prime rating categories.

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(4) Fitch Ratings Ltd., which we refer to as Fitch, financial strength ratings currently range from AAA (exceptionally strong) to C (distressed). Fitch s ratings reflect its assessment of the likelihood of timely payment of policyholder and contractholder obligations. Fitch long-term credit ratings currently range from AAA (highest credit quality), which denotes exceptionally strong capacity for timely payment of financial commitments, to D (default). Investment grade ratings range between AAA and BBB. Short-term ratings range from F1 (highest credit quality) to C (high default risk). Within long-term and short-term ratings, a + or a may be appended to a rating to denote relative status within major rating categories.
(5) S&P has the ratings of our U.S.-domiciled entities on stable outlook and the ratings of our Japanese insurance entities on negative outlook as part of S&P s decision to put the sovereign debt ratings of Japan on negative outlook.
(6) This rating for Prudential Life Insurance Company of Taiwan, Inc. was issued on December 18, 2013 by Taiwan Ratings Corporation, a partner of S&P.

The ratings set forth above reflect current opinions of each rating agency. Each rating should be evaluated independently of any other rating. These ratings are not directed toward shareholders and do not in any way reflect evaluations of the safety and security of the Common Stock. These ratings are reviewed periodically and may be changed at any time by the rating agencies. As a result, we cannot assure stakeholders that we will maintain our current ratings in the future.

Rating agencies use an outlook statement for both industry sectors and individual companies. For an industry sector, a stable outlook generally implies that over the next 12-18 months the rating agency expects ratings to remain unchanged among companies in the sector. Currently, A.M. Best, S&P, Moody s and Fitch all have the U.S. life insurance industry on stable outlook. For a particular company, an outlook generally indicates a medium- or long-term trend (generally six months to two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice. Currently, Moody s, A.M. Best and Fitch have all of the Company s ratings on stable outlook; and S&P has the ratings of our U.S.-domiciled entities on stable outlook and the ratings of our Japanese insurance entities on negative outlook as part of S&P s decision to put the sovereign debt ratings of Japan on negative outlook.

Requirements to post collateral or make other payments as a result of ratings downgrades under certain agreements, including derivative agreements, can be satisfied in cash or by posting permissible securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels as of March 31, 2014 (relating to financial strength ratings in certain cases and credit ratings in other cases) would result in estimated additional collateral posting requirements or payments under such agreements of approximately $23 million. The amount of collateral required to be posted for derivative agreements is also dependent on the fair value of the derivative positions as of the balance sheet date. For additional information regarding the potential impacts of a ratings downgrade on our derivative agreements see Note 14 to our Unaudited Interim Consolidated Financial Statements. In addition, a ratings downgrade by A.M. Best to A- for our domestic life insurance companies would require Prudential Insurance to either post collateral or a letter of credit in the amount of $1.5 billion related to the variable annuity business acquired from Allstate. We estimate the cost of such letter of credit to be approximately $9 million per year. We believe that the posting of such collateral would not be a material liquidity event for Prudential Insurance.

In view of the difficulties experienced in recent years by many financial institutions, the rating agencies have heightened the level of scrutiny that they apply to such institutions, have increased the frequency and scope of their credit reviews, have requested additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels, such as the financial strength ratings currently held by our life insurance subsidiaries. In addition, actions we might take to access third party financing or to realign our capital structure may in turn cause rating agencies to reevaluate our ratings.

The following is a summary of the significant changes or actions in our ratings and rating outlooks that have occurred from January 1, 2014 through the date of this filing.

On May 7, 2014, A.M. Best affirmed Prudential Financial s long-term senior debt rating at a- and short-term debt rating at AMB-1 . A.M. Best also affirmed the A+ financial strength ratings of Prudential s

core subsidiaries, including Prudential Insurance Company of America, Prudential Annuities Life Assurance Corporation, and Prudential Retirement Insurance and Annuity Company, with stable outlooks.

Off-Balance Sheet Arrangements

Guarantees and Other Contingencies

In the course of our business, we provide certain guarantees and indemnities to third parties pursuant to which we may be contingently required to make payments in the future. See Commitments and Guarantees within Note 15 to the Unaudited Interim Consolidated Financial Statements for additional information.

Other Contingent Commitments

We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. See Commitments and Guarantees within Note 15 to the Unaudited Interim Consolidated Financial Statements for additional information regarding these commitments. For further discussion of certain of these commitments that relate to our separate accounts, also see Liquidity associated with other activities Asset Management operations.

Other Off-Balance Sheet Arrangements

In November 2013, we entered into a put option agreement with a Delaware trust that gives Prudential Financial the right, at any time over a ten-year period, to issue up to $1.5 billion of senior notes to the trust in return for principal and interest strips of U.S. Treasury securities that are held by the trust. See Note 9 to our Unaudited Interim Consolidated Financial Statements for more information on this put option agreement. Other than this put option agreement, we do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, other than the put option agreement referred to above, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of fluctuations in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates, equity prices or commodity prices. To varying degrees, our products and services, and the investment activities supporting them, generate exposure to market risk. The market risk incurred, and our strategies for managing this risk, vary by product. A description of our market risk exposures may be found in our Annual Report on Form 10-K, for the year ended December 31, 2013, Item 7A, Quantitative and Qualitative Disclosures about Market Risk , filed with the Securities and Exchange Commission. See Item 1A, Risk Factors included in the Annual Report on Form 10-K for the year ended December 31, 2013, for a discussion of how difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

There have been no material changes in our market risk exposures from December 31, 2013; however, as disclosed in Note 14 to the Unaudited Interim Consolidated Financial Statements, the notional amount of Synthetic GICs, as of December 31, 2013, has been revised to correct a previously reported amount. There was no impact to the disclosed fair value or hypothetical change in fair value resulting from a 100 basis point change in interest rates as reported in our Annual Report on Form 10-K, for the year ended December 31, 2013, Item 7A, Quantitative and Qualitative Disclosures about Market Risk Market Risk Related to Interest Rates.

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ITEM 4. CONTROLS AND PROCEDURES

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized, and reported on a timely basis, the Company s management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of March 31, 2014. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2014, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended March 31, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 15 to the Unaudited Interim Consolidated Financial Statements under Litigation and Regulatory Matters for a description of material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under Forward-Looking Statements above and the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table provides information about purchases by the Company during the quarter ended March 31, 2014, of its Common Stock:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Approximate Dollar Value of Shares that May Yet be Purchased under the Program
January 1, 2014 through January 31, 2014	944,860	$ 88.57	940,991	
February 1, 2014 through February 28, 2014	1,472,031	$ 83.71	994,875	
March 1, 2014 through March 31, 2014	973,941	$ 85.89	970,209	
Total	3,390,832	$ 85.69	2,906,075	$ 250,030,232

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

(2) In June 2013, the Board authorized the Company to repurchase up to $1.0 billion of its outstanding Common Stock during the twelve month period starting July 1, 2013 through June 30, 2014.

ITEM 6. EXHIBITS

12.1	Statement of Ratio of Earnings to Fixed Charges.
31.1	Section 302 Certification of the Chief Executive Officer.
31.2	Section 302 Certification of the Chief Financial Officer.
32.1	Section 906 Certification of the Chief Executive Officer.
32.2	Section 906 Certification of the Chief Financial Officer.

101.INS - XBRL	Instance Document.
101.SCH - XBRL	Taxonomy Extension Schema Document.
101.CAL - XBRL	Taxonomy Extension Calculation Linkbase Document.
101.LAB - XBRL	Taxonomy Extension Label Linkbase Document.
101.PRE - XBRL	Taxonomy Extension Presentation Linkbase Document.
101.DEF - XBRL	Taxonomy Extension Definition Linkbase Document.

Prudential Financial, Inc. will furnish upon request a copy of any exhibit listed above upon the payment of a reasonable fee covering the expense of furnishing the copy. Requests should be directed to:

Shareholder Services

Prudential Financial, Inc.

751 Broad Street, 21st Floor

Newark, New Jersey 07102

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SIGNATURES

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

Prudential Financial, Inc.

By: /s/ ROBERT M. FALZON
Robert M. Falzon

Executive Vice President and Chief Financial Officer
(Authorized signatory and principal financial officer)

Date: May 8, 2014

EXHIBIT INDEX

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